EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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EUROPE

Brussels fights for takeover bids accord

Page 6

World News

Archbishop in controversial attack on UK Government

Dr Robert Runcie, the Archbishop of Canterbury and leader of the world's 70m Anglicans, has provoked a political squall in Britain by criticising Thatcher Government policy, saying the country was turning into a society of self-interest and intolerance. Page 20

Japanese win

Japan's ruling Liberal Democratic Party, which suffered its biggest electoral setback in more than 30 years in the summer, yesterday won an important confidence-building by-election victory. Page 4

Peking sealed off

China's security forces sealed off central Peking, throwing a cordon around Tiananmen Square for festivities to be attended by leaders celebrating 40 years of Communist rule. Page 4

Kohl election slide

Chancellor Helmut Kohl's Christian Democrats lost ground in local West German council elections, computer projections showed.

US drugs capital

Los Angeles has claimed the dubious honour of being the "drug capital of the US" with the seizure by federal agents late last week of over 20 tons of cocaine from a warehouse north of the city. Page 3

Barents Sea talks

Norway and the Soviet Union are to resume talks this autumn in Oslo over a 15-year dispute on where a demarcation line in the Barents Sea should be drawn. Page 6

Chernobyl prayers

A thousand people packed the main Catholic church in Minsk to pay tribute to victims of the Chernobyl nuclear disaster, a day after a protest march through the city. Page 2

Hole in drug net

Evaristo Porras, the biggest catch so far in the drug war, may go free because it seems there are no outstanding charges against him in Colombia or the US. Page 3

Lebanese meeting

A diminution of the political power of Lebanon's Maronite Christians is the likely outcome of the meeting of Lebanese MPs. Page 4

ANC talks in UK

South African organisation with close ties to the ruling National Party met ANC members. Page 4

Clouthier killed

Mexico's opposition leader and former presidential candidate, Mr Manuel Clouthier, was killed in a car crash.

Yazov flies to US

Soviet Defence Minister Dmitri Yazov left for an official visit to the US, the first such trip by a Soviet defence chief.

Ban on Marcos

President Corazon Aquino of the Philippines said yesterday her ban on allowing the body of Ferdinand Marcos, the former leader, into the country was not permanent. Page 4

Israelis kill four

Israeli troops shot dead four Palestinians and wounded 22 in clashes with stone-throwers in the occupied territories.

Tribal chief reburial

A tribal chief who was a close relative of Mr Nelson Mandela was reburied yesterday, under the flag of the African National Congress. Page 4

Cambodia offensive

Cambodian guerrillas have launched a major offensive against the pro-Hanoi government and claimed to have battled their way into a key border town.

Threat to sheep

A shipload of Australian sheep rejected by Middle East countries was in danger of being slaughtered at sea and their carcasses dumped overboard unless a home was found for them. Page 4

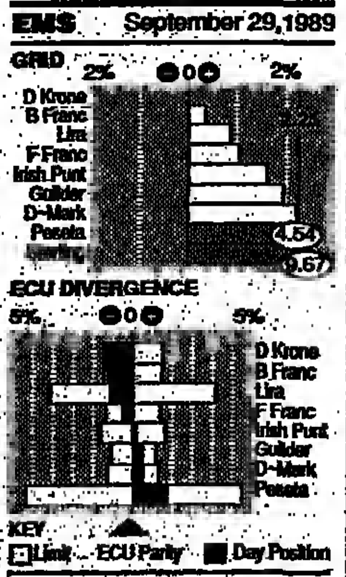
Business Summary

Pearl and AMP to meet amid bid rumours

The chairman of Pearl Group, Einion Holland, is to meet his counterpart at Australian Mutual Provident, David Anderson, amid speculation that AMP is set to make a bid worth more than £1bn for the UK life insurance company. Page 7

EUROPEAN Monetary System: The French franc lost ground against the D-Mark last week amid growing speculation that West German interest rates may be increased. The D-Mark has also improved against other EMS currencies, notably the Spanish peseta, as speculative funds are switched into the German unit. The latter has now replaced the peseta as the most improved currency within the system. The Danish krone is the weakest member and spent most of the week trading around its maximum divergence limit.

EMS September 29,1989



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency (except the lira), may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), a basket of European currencies.

AIBD, Association of International Bond Dealers, is to impose stiff fines and penalties on members which fail to stick to its rules. Page 24

PREUSSAG, West German energy and metals concern, is negotiating a possible merger with Salzgitter, the state-owned steel company, in a deal which would produce a group with a turnover of around DM27bn and employ 70,000 people. Page 24

MEXICAN President Carlos Salinas de Gortari's is expected to press for elimination of US trade barriers to Mexican exports while in US. Page 3

LA FONDIARIA, Florentine insurance group controlled by Ferruzzi Group, has announced a broadly-based corporate restructuring, together with moves to raise about $408m of fresh capital. Page 24

IPMA, International Primary Markets Association (Ipma), trade association which oversees new-issue business on Eurobond market, told banks they were not obliged to disclose how much of a new issue had been distributed in the primary market. Page 24

US cut in capital gains tax now looks likely to be amended in the Senate as a result of conflicting pressures from the Bush Administration and the Democrats. Page 3

OERLIKON-BUEHRLE, Swiss industrial and armaments group, forecasts a bigger net consolidated loss on its 1989 operations than last year's $21.8m deficit. Page 24

PIONEER International, Australian building materials and resources group, announced poor earnings performance. Page 24

RICHARD Branson, UK entrepreneur, is to announce purchase by a Japanese company of a minority stake in Virgin, the record, airline and entertainment group. Page 9

ITALIAN Prime Minister Giulio Andreotti defended reforms of public financing for the 1990 budget. Page 6

NEXT, fashion retailer, is expected to announce a radical restructuring of its business when it releases interim profit figures on Thursday. Page 7

ENGINEERING Employers Federation, UK association of engineering companies, said output from all engineering industries will be virtually static next year. Page 10

Strike settlement leaves Soviet coal industry in crisis

By Quentin Peel in Moscow

TWO MONTHS after a mass strike by Soviet coal miners, the mining industry is still in turmoil, disrupted by the sacking of old managers, new work schedules, lack of equipment and a chronic shortage of railway wagons.

Production losses are running at least 10m tonnes behind plan targets and coal stocks at thermal power stations, and coke-processing plants, as well as household and rural supplies, have sunk to worrying levels, Mr Mikhail Shchadov, the Coal Industry Minister, revealed at the weekend.

His picture of an industry in chaos comes less than a week after another minister warned of big production losses in the oil and gas industries, gravely compounding the economic plight facing Mr Mikhail Gorbachev's economic reforms.

The Soviet leader admitted to miners' leaders in the Ukraine last week that the country was in "a state of crisis" and warned that any new strike would be "disastrous for the country."

The miners claim the Government has failed to fulfil its promises, with supplies of food and consumer goods in the coalfields still woefully inadequate and slow progress in changing the whole management structure of the industry. Miners' strike committees will be meeting in all the major coalfields in the coming days to decide whether to call a new stoppage.

Mr Shchadov yesterday spelt out in an interview in Trud, the trade union newspaper, all the promises that had been fulfilled, including wage increases costing more than 1bn roubles ($1.58bn) a year, and an increase in the pithead price of coal from October 1.

He said that three main regional coal boards were being completely scrapped – in Donetsk, Voroshilovgrad and Kemerovo. The coal industry management bureaucracy is also being drastically pruned, by 20 per cent at mines, and 30 per cent at joint production associations, to meet the workers' demands.

However, he also spelt out a picture of administrative chaos aggravated by the strike settlement – and even more serious disruption caused by lack of new equipment and railway capacity.

In the far northern Pechora field, in Karaganda, and in the Kuzbas where the strike started, coal extraction rates were now running well below last year's rates, he said. "The situation has worsened because many directors and leading specialists have lost their jobs at the decision of the strike committees, in a show of mistrust."

Although some of the management deserved this, he said, in other cases the sackings Continued on Page 20

Exodus of refugees heightens tension between the Germanys

By David Marsh in Bonn and Leslie Colitt in Berlin

Exhausted East German refugees cross the railway tracks at Giessen, near Frankfurt, yesterday after arriving by train from Prague where they had sought asylum in the West German embassy

THE THREAT of further tension between the two Germanys over the flood of eastern emigrés rose last night after more than 6,000 East German fugitives crossed to West Germany from Poland and Czechoslovakia in an unprecedented escape deal.

As the Bonn Government stepped up calls for political reforms in East Berlin, fresh arrivals of East German refugees at West Germany's embassies in Warsaw and Prague yesterday risked exacerbating the inter-German war of nerves.

An estimated 300 East Germans were last night reported to be in the Prague embassy, in spite of efforts earlier in the day by Czech police to block entry.

The latest arrivals came in less than 24 hours after the building was evacuated of about 4,000 refugees who had been camped out in increasingly difficult conditions. More than 70 East Germans were also reportedly seeking refuge in Bonn's embassy in Warsaw last night.

Uniformed Czech police moved in on Saturday night after the 4,000 had left, and tried to block the approaches to the Prague embassy. However, about 200 East Germans assembled in front of the building. Their desperation ended at 5pm when the policemen in front of the gate moved aside and Ambassador Hermann Huber appeared. "For the time being we are letting you in," he said.

Other East Germans appear to have climbed the fence in spite of the police presence.

Yesterday's events followed the East German Government's agreement on Saturday to allow the exit from Bonn's overcrowded embassies in both Prague and Warsaw of East German citizens seeking to cross to the West.

East Berlin called on West Germany to bar its East European embassies to would-be escapees from East Germany. However, Mr Rudolf Seiters, the Bonn Chancellery Minister who played a key role in negotiating the weekend releases, said Bonn's embassies would continue their function of keeping open German travel freedom. "We don't put anyone on the street," he said.

Mr Hans-Dietrich Genscher, the Foreign Minister, said he hoped Mr Mikhail Gorbachev, the Soviet leader, would press reforms on East Berlin.

Under the compromise between Bonn and the embattled East German leadership, calculated to save face in East Berlin, the departures took place yesterday in East German trains crossing to the Federal Republic via East German territory. Many young East Germans, alerted of the breakthrough, jumped aboard trains as they stopped in East German stations.

The flood of fugitives from Communism via East Germany's two neighbouring Warsaw Pact partners illustrates the isolation of the East Berlin regime. Including the 24,000 East Germans who have escaped via Hungary in the past three weeks, yesterday's surge took to more than 30,000 the latest outflows from East Germany – comparable to the numbers fleeing in the period before the building of the Berlin Wall in 1961.

Neither Prague nor East Berlin has indicated plans to limit the visa-free travel by East Germans to Czechoslovakia which has made the rush to the embassy possible.

The East Berlin Government termed the move to allow out the embassy refugees a "humanitarian" gesture ahead of East Germany's 40th anniversary next weekend.

The anniversary threatened to be overshadowed by the presence of thousands of citizens in the embassies. East German Foreign Ministry spokesman Wolfgang Meyer said East Germany hoped this "humanitarian act" would lead West Germany to conform with "normal international practices" in its embassies.

Berlin's dilemma, Page 2

Pound faces uncertain week on exchanges

By Alan Pike in London

STERLING begins a nervous and uncertain week today following Bank of England intervention to support the currency at the end of last week.

Some analysts believe it is only a matter of time before the British Government is forced to raise interest rates in order to defend sterling. This fear led to falls in British share prices last week.

Sterling rose on Friday in London by nearly a cent to $1.6150 but lost some ground against the D-Mark to close at DM3.0225. The index against a basket of currencies closed at 91.4, down from 91.6 at the start of the day but up from 91.2 on Thursday.

The central council of the West German Bundesbank meets in Frankfurt on Thursday and, if the Bundesbank decides to increase its interest rates, there is widespread feeling that this would have a ripple effect leading to higher rates elsewhere in Europe.

The West Germans have faced some pressure from other European finance ministries to hold their rates. At the International Monetary Fund's annual meeting in Washington last week, Mr Onno Ruding, [illegible] appealed to Germany not to raise its interest rates. He said he saw no reason for more rate increases in Europe.

Mr Nigel Lawson, Chancellor of the Exchequer, reported to the cabinet on the state of the pound on Thursday but has not spoken publicly on the position since his return from the International Monetary Fund annual meeting in Washington earlier last week.

Lombard, Page 19, Economic Notebook, Page 21, Currencies, Page 38

Peugeot pay strike set to hit export models

By William Dawkins in Paris

PEUGEOT expects the first shortages of some export models to occur soon because of a strike over pay, the most serious to hit the French car maker for five years, which goes into its fourth week today.

However, Mr Jacques Calvet, Peugeot's chairman, was refusing to open negotiations last night and intends to go ahead today as planned with the marketing of a new model, the 605 – Peugeot's main attempt so far to tackle BMW and Mercedes of West Germany in the executive car market.

The two factories at the heart of the dispute were uncannily calm yesterday morning as a hard-core of 100 strikers continued their occupation of the forge at Mulhouse, north-east France, where the strike started before spreading to nearby Sochaux.

Initial signs that unrest could take hold at Renault, the French state-owned car producer, appeared to retreat as negotiations opened at two Renault plants subject to sporadic stoppages last week. This has become the most serious strike for five years at PSA, France's biggest private company, which owns Peugeot and Citroen.

It comes at a time when the French car industry lacks the capacity fully to service a strong upturn in car demand, creating a fresh opening for imports. Foreign cars already account for nearly 40 per cent of registrations, a source of alarm for the French car industry. Members of the Government and Socialist Party continued over the weekend to heap pressure equally on Mr Calvet and Peugeot's unions, whose stance has hardened in recent days, to open talks.

Mr Jean-Pierre Soisson, Labour Minister, was in close contact with Mr Calvet and the unions but told French radio [illegible] seemed to be no wish to find an accord on either side.

Mr Jean-Pierre Chevènement, Defence Minister, said "everything could be sorted out through negotiations but today it seems to be unions who are refusing to talk."

Apart from the political outcry, the first real damage to Peugeot's sales is beginning to be felt. Sochaux and Mulhouse are the two largest of Peugeot's three French assembly lines.

Continued on Page 20

Brussels may reduce tariff on imports of semiconductors

By Terry Dodsworth in London

THE EUROPEAN Commission is considering another sweeping change in its semiconductor trade policy with a proposal for reducing or eliminating the current 14 per cent tariff on chip imports.

There is broad agreement in the industry that this initiative could lead to a reduction in the current tensions over semiconductor trade issues between the three main chip producer zones in the US, Japan and Europe.

But the proposal is unlikely to be agreed without a battle with European semiconductor producers who broadly favour continuing import protection.

Trade in semiconductors, the basic component building blocks of the electronics industry, has been bedevilled by disputes for the last four years. The most serious led to the agreement between the US and Japan over a floor price for Japanese-produced memory chips, and a promise on market access to Japan for US products.

Unlike Europe, neither Japan nor the US have a tariff. Yet despite this protection given by the duty, Europe recently brought an anti-dumping action against Japanese memory chips. Only a few weeks ago, the Commission reached outline agreement with Japan on its own floor price mechanism to stipulate a minimum price for chips.

This agreement, along with the decision of several Japanese manufacturers to establish chip-manufacturing plants in Europe has helped create the opportunity for reducing the European tariff. Commission documents asking for a reaction to a possible cut have been sent out to member states seeking reaction from industry.

The initial responses show a sharp division between chip users and producers. Computer manufacturers and other companies that need semiconductors to assemble into their finished products argue that the tariff should at least be reduced to some 4 per cent – the duty on the most important chip-based sub-assemblies – and preferably eliminated altogether.

These companies say that semiconductors, particularly memory chips, constitute a very large proportion of many electronic products. In a personal computer, for example, they can account for 30-40 per cent of the final price. It is impossible to compete effectively, they say, with Far Eastern producers of this equipment, given the present duty.

European semiconductor manufacturers contend that they need continuing tariff protection to enable the indigenous European industry to develop to a point where it can compete on an equal footing.

In the last five years or so there has been a wave of substantial new investment and rationalisation in the European industry and the Commission is backing a big new research and development effort that could mean the expenditure of $4bn over the next few years.

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THE MONDAY INTERVIEW

Christine Hancock takes over as general secretary of the Royal College of Nursing in Britain. With an economics degree and a career in management she is "gamekeeper turned poacher". Page 42

OVERSEAS NEWS

Berlin's dilemma grows as East Germans go West

By David Marsh in Bonn

THE TUMULTUOUS scenes in the West German embassy in Prague on Saturday night were described yesterday by Mr Hans-Dietrich Genscher, Bonn's Foreign Minister, as the "most moving" in his career. The cries of elation in the Czech capital are likely to echo around what appears to be a rapidly changing political map of central Europe.

Mr Genscher, visibly and emotionally reliving his own experience as an emigré from East Germany in 1952, brought the news to 4,000 East German fugitives camped out in the embassy that they could leave for the West.

One young East German from the Prague sit-in, arriving in the Federal Republic yesterday, joyfully told a West German television team: "Wonderful! Freedom at last". Her words sum up the uplifting part of the adventure, but leave some of the disturbing aspects untold.

In a move to end the mounting danger of overcrowding and disease in the embassy, East Berlin decided to allow out both the Prague refugees and 800 more who had sought asylum in Bonn's embassy in Warsaw.

The deal was the product of several days of contacts between Bonn and East Berlin, including Mr Genscher's talks at the United Nations general assembly in New York last week.

East Germany manifestly wishes to avoid television pictures sweeping the world of its citizens trying to escape in droves from the "peace-loving" Communist state which next weekend celebrates its 40th anniversary.

The clinching factor appears to have been the Prague emigrés' comprehensive rejection of exit terms offered them last week by Mr Wolfgang Vogel, the lawyer who is East Germany's emissary on humanitarian missions.

East Germany's leaders face a choice between 'cholera and the plague'

The flow of East Germans in special trains to the Federal Republic yesterday takes to more than 30,000 the number of East Germans to have fled to the West in September.

The weekend departures may buy time for the embattled leadership of Mr Erich Honecker ahead of the coming anniversary parades in East Berlin. But it only sharpens the dilemma over the future of East Germany.

The gerontocratic leadership faces a choice between what one senior Bonn official calls "cholera and the plague".

Unlike other East European states, which are also self-respecting nations, East Germany's state legitimacy rests essentially on Marxism-Leninism. So genuine reforms of the sort seen in Hungary risk cancelling ont East Germany's birthright and increase the likelihood that, in some way, it will eventually simply be merged with the West.

On the other hand, continued obduracy or a crack-down on dissidents will increase the danger that discontent could bubble up into some form of uprising – which would not leave Moscow unmoved.

Mr Genscher, whose personal standing in West Germany seems likely to rise further as a result of his role in the weekend rescue, appealed passionately yesterday for East Germany at last to join the East European reform path.

Mr Rudolf Seiters, the Bonn Chancellery Minister, reaffirmed that Bonn could provide East Germany with economic help if it put into effect reform measures.

Mr Seiters, who accompanied Mr Genscher to Prague on Saturday night to announce the fugitives' release, pointed out that lack of democratic rights in East Germany would only increase pressure for change.

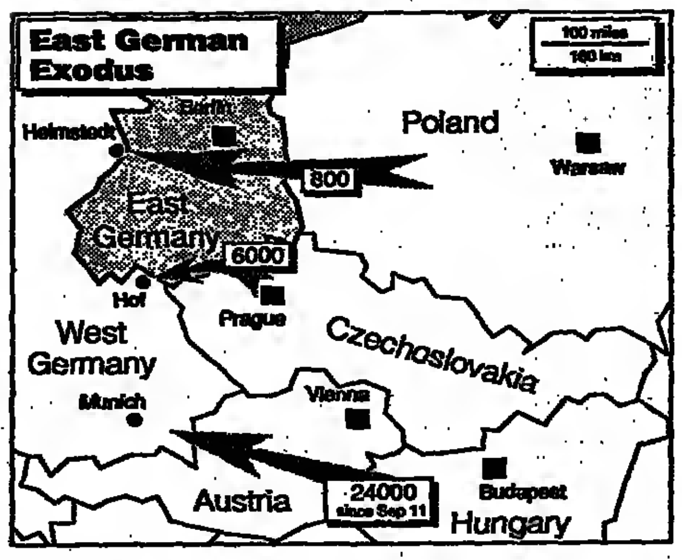
But, like Mr Genscher, he was unable to explain how Bonn can work to stabilise a country which - by virtue of its ultimate political goal of unification - it simultaneously wants to undermine.

As the two men were talking, special trains from the Reichsbahn, the East German railways, brought the Prague emigrés to Hof, next to the fortified East-West German frontier in eastern Bavaria. Their numbers were swollen by 2,000 more who boarded at the last minute in Czechoslovakia, or who climbed aboard as they passed through East Germany.

One young man appeared on West German television to say that he had heard via Western television on Saturday night in Dresden that the train was passing through his home city on its way to West Germany. He simply went to the station at 2 am and hitched a lift to the West.

As the floodgates to the West appear to open, many thousand ordinary citizens in East Germany who, up to now, have been reasonably content with their lot, will now wish they had followed this young fugitive's example. The worry that latent East German dissatisfaction could increase uncontrollably is one fear uniting both Bonn and East Berlin.

Bonn Foreign Minister Hans-Dietrich Genscher and Chancellery Minister Rudolf Seiters speak to journalists after telling East German fugitives in Prague they could leave for the West



Citizens miss the birthday party

By Leslie Colitt in Berlin

THE PROSPECT of celebrating East Germany's 40th anniversary next Saturday with the international spotlight fixed on thousands of its citizens in the West German embassies in Prague and Warsaw, was too bleak for the East German leadership.

Instead, East Berlin cut its losses and agreed to let nearly 4,000 East Germans in the embassies out to West Germany. But this left unsolved the dilemma of the more than 500 East Germans who are escaping daily to the West via Hungary.

East Germany has resisted clamping down on travel to Hungary but many East Germans fear this step may follow after October 7.

The beleaguered East German leadership under Mr Erich Honecker is not to be envied. In the West, dynamic and prosperous West Germany exerts an irresistible magnetism on most East Germans. In the East, the leadership is increasingly isolated by its reform-minded Warsaw Pact allies, the Soviet Union, Poland and Hungary.

Mr Honecker has chosen to batten down the domestic hatches against reforms while presenting a conciliatory face to West Germany. There is remarkable unanimity in the East Berlin leadership that increased economic co-operation with West Germany is essential if the centrally-planned East German economy is to survive without major reforms.

Thus, Mr Erich Mielke, the Interior Minister, last week accused the new countrywide opposition movement New Forum of being controlled by the West. Earlier, his ministry branded it "subversive". Mr Günter Mittag, responsible for the economy in the ruling politburo, Mr Hermann Axen, the politburo member in charge of international relations, and the Prime Minister, Mr Willi Stoph, all spoke out against reforms.

But the buds of dissent were erupting within the leadership itself. Mr Hans Modrow, the popular party leader in Dresden District and a dark horse candidate to succeed Mr Honecker, said on a visit to West Germany that "deep thought" would have to be given to the reasons why so many East Germans were leaving the country.

Rank-and-file members of the party too were rebelling against the "arrogant" manner in which the leadership refused to acknowledge that it had made mistakes. They urged that Mr Honecker step down in favour of a man like Mr Modrow who could begin the process of reforming.

The leadership, however, appeared confident that it could squelch forces for change in the establishment as long as pressures for reforms within the population did not rise. East Germans who were strongly opposed to the regime, however, were simply making their views known by leaving the country.

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Aug.'89	July '89	June '89	Aug.'88
UK (£bn)	exports	7.476	7.705	7.816	6.845
	imports	9.772	10.190	9.790	8.506
	balance	-2.296	-2.485	-1.974	-1.661
Japan (US$bn)	exports	22.896	22.032	22.267	21.899
	imports	16.565	16.566	16.519	14.247
	balance	+6.331	+5.466	+5.748	+7.652

		July '89	June '89	May '89	July '88
US ($bn)	exports	30.736	31.286	30.455	26.613
	imports	38.317	39.293	40.534	35.074
	balance	-7.581	-8.007	-10.079	-8.461
W. Germany (DMbn)	exports	54.20	56.30	51.70	49.50
	imports	42.30	43.50	41.50	37.20
	balance	+11.9	+12.8	+10.2	+12.3
France (FFrbn)	exports	91.57	97.51	92.94	81.48
	imports	99.06	100.6	99.69	85.78
	balance	-7.49	-3.09	-6.75	-4.30

Protesters remember Chernobyl at Minsk church service

A THOUSAND people packed the main Catholic church in Minsk yesterday to pay tribute to victims of the Chernobyl nuclear disaster, a day after an unprecedented protest march through the city, Reuter reports from Minsk.

Kalvariskii Church was overflowing with people, many wearing armbands with radioactivity symbols. They sang hymns and said a prayer for those who died or suffered from radiation in the April 1986 accident.

"We must not forget the sufferings that occurred," the priest, Yan Adamovich, told the congregation in both Polish and Byelorussian. Hundreds of people stood outside the church, unable to get in.

On Saturday, more than 15,000 demonstrators ignored an official ban and pouring rain to march through Minsk demanding that local authorities do more to clean up the Chernobyl accident.

For four hours they chanted "Down with Sokolov" – a reference to Yefrem Sokolov, the republic's party chief – and cheered calls for the prosecution of those who were running the republic's government at the time of the disaster.

Thirty-one people died in the 1986 explosion and fire at the Chernobyl nuclear power plant, which lies in the Ukraine a few miles south of Byelorussia.

Some 100,000 people from the two republics were evacuated immediately after the disaster but Byelorussian activists say this was not nearly enough.

They want half a million people to be moved out of contaminated zones. They say children are already suffering from leukaemia as a result of the accident.

In August, the official news agency Tass appeared to confirm some of their fears, saying one-third of Byelorussia was still affected by radiation and suggesting a further 100,000 people should be moved from their homes.

At a news conference on Saturday, scientists and activists said the republic of 10m people would face disaster unless massive steps were taken to clear up the radiation.

At another meeting with reporters yesterday, people from the areas hit by radiation condemned officials' refusal to move them and accused the Byelorussian government of trying to hide the seriousness of the contamination.

The weekend meetings in Minsk were organised by the Byelorussian Popular Front, a mass movement which has seized on public suspicion that the Government withheld information about the extent of the Chernobyl disaster.

The protesters said officials had harassed organisers of the campaign to clear up the affected areas.

So much protest is rare in Byelorussia, a western Soviet republic where conservative Communist Party leadership has long clamped down on dissent.

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OVERSEAS NEWS

Senate expected to amend US capital gains measure

By Peter Riddell, US Editor, in Washington

THE TEMPORARY two-year cut in US capital gains tax approved last Thursday by the House of Representatives now looks likely to be amended in the Senate as a result of conflicting pressures from the Bush administration and the Democratic leadership.

The administration would like to make the reduction permanent, and while the Senate Democratic leadership opposes a reduction in capital gains tax rates now, its main attack is on the cut-and-increase version approved by the House.

Senator George Mitchell, the Democratic majority leader, yesterday claimed to have the votes to stop the House plan, though he accepted that a number of his fallow Democrats favoured some form of capital gains differential.

The Senate Democratic leadership will propose an extension of tax relief on savings via individual retirement accounts, but, unlike the House Democratic leadership, this will not involve a controversial increase in income tax on the wealthiest.

Instead, it will be financed by a variety of measures not involving new tax increases such as extending the telephone excise tax. Senator Mitchell said the vote would be very close on some modified capital gains plan.

The most likely outcome is that there will be a limited, permanent reduction in capital gains tax and tax relief will be extended on individual retirement accounts. This will, however, do nothing for reducing the budget deficit and it may sour relations even further between the administration and the congressional leadership.

The temporary cut in the tax passed by the House was sharply attacked by Senator Mitchell as "so wrong for the economy. It will do for the deficit what crack does for the user; a quick, short high followed by a long painful depression."

In evidence on Friday to the Senate Finance Committee, Mr Nicholas Brady, the Treasury Secretary, noted the criticism that the House version would only cut the tax until the end of 1991 (after which it would be raised from a maximum of 19.6 to 28 per cent, though it would then be inflation-proofed). He hoped that "we'll do better than that in the Senate and try and even out that proposition to give a longer-term view."

Tax will still be among world's highest

By Peter Riddell

THE CAPITAL gains tax rate in the US has been among the highest in the industrialised world, and will still be at the high end of the range even if the tax-cut proposals passed by the House of Representatives on Thursday are approved by the Senate.

The accompanying table shows the maximum rates in the main industrialised countries. But, as the lengthy notes indicate, it is difficult to make exact comparisons because of varying levels of exemption for small gains and differing attitudes to profits resulting from inflation.

Consequently, the high nominal rates in both Australia and the UK are somewhat misleading since in both cases gains are inflation-proofed.

Similarly, under the US proposals approved by the House, once the maximum capital gains rate has been raised from the proposed temporary 19.6 per cent to 28 per cent at the end of 1991, profits thereafter resulting from inflation will not be taxable.

However, not only will the temporary cut apply only to long-term gains (that is, on assets held for more than a year), but the post-1991 inflation proofing will also apply just to assets acquired after that date and held for more than a year.

The temporary cut will not cover all assets but just securities, commercial and residential property and timber (the latter a sop to southern Democrats who provided the key votes last Thursday). Collectibles such as art and antiques are excluded.

An objective of both the 1986 tax reform in the US and the 1988 changes in the UK was neutrality – that is, no bias in favour of either income or capital.

Hence, the 40 per cent maximum rates in the UK apply to both and therefore provide no incentive for investors to shift from either on tax grounds.

The proposed temporary cut in the US rate will breach that principle, as reformers such as Senator Bill Bradley have been pointing out, though the present intention is that neutrality will be restored after 1991.

Advocates of a lower rate of capital gains tax argue that the higher nominal rate of tax in the US than in its main competitors raises the cost of capital – that is, the pre-tax return on a new investment required to cover the purchase price of an asset, the market rate of interest, inflation, economic depreciation and taxes.

According to data prepared by the American Council for Capital Formation, the pre-tax return, excluding economic depreciation, was 5.66 per cent in the US in 1987, compared with 4.39 per cent in West Germany, 3.58 per cent in the UK, and 2.75 per cent in Japan. The most significant factors contributing to these variations are differences in real interest rates and tax codes.

Federal tax policy was responsible for increasing the user-cost of capital for equipment by about 23 per cent from 1981 to 1986, mainly as a result of the reduction of various investment incentives and reversal of changes beneficial to business which were introduced in the first Reagan budget in 1981.

If depreciation is excluded, the pre-tax return required by an investor rose by nearly 90 per cent over the period.

CAPITAL GAINS TAX (%)
Comparison of Individual Taxation of Capital Gains on Portfolio Investments in 1989

	Short-Term Maximum	Long-Term Maximum	Period To Qualify For Long-Term Treatment
US (now)	33	33	None
Australia	50.25	50.25	One Year
Canada	19.33	19.33	None
France	16	16	None
West Germany	56	Exempt	Six Months
Italy	Exempt	Exempt	None
Japan	5	5	None
Netherlands	Exempt	Exempt	None
United Kingdom	40	40	None

Notes:
US: the nominal rate for gains is 28 per cent, but the marginal rate rises at present to 33 per cent for single people between $44,900 and $93,130;
Australia: Indexing is allowed on long-term gains;
Canada: residents are allowed a lifetime capital gains exemption of $84,700;
France: gains from proceeds of up to $42,700 are exempt in a given taxable year;
West Germany: the first $532 of short-term capital gains is exempt from tax;
UK: only gains and losses accrued since 1982 are taxed with gains since 1982 being inflation-proofed.

Source: American Council for Capital Formation, April 1989

Salinas seeks talks on US trade barriers

By Richard Johns in Mexico City

ELIMINATION of US trade barriers to Mexican exports, in particular steel and textiles, will be at the top of President Carlos Salinas de Gortari's agenda during his state visit to US this week.

Other main topics for discussion are greater co-ordination in the struggle against drug trafficking, the treatment of migratory workers in the US, and the protection of the environment along the frontier between the two countries.

Mr Salinas left yesterday and was to have informal talks with Mr Bush at Camp David before the state visit officially starts tomorrow, when he will be received by Mr Bush at the White House, marking the excellent relations established since the two leaders' administrations came to power at the turn of the year.

It is planned that seven accords will be signed after a short working session by separate joint committees and an official meeting between the two heads of state. One of them is expected to cover an exchange of information on the laundering of profits from narcotics trafficking.

In what was clearly meant to be a curtain-raiser to the visit, and as if to emphasise Mexico's entitlement to special treatment under the General System of Preferences, the authorities in Mexico City publicly burnt on Friday what was claimed to be six tons of pure cocaine, 358 kg of dried marijuana, and nearly 358 kg of opium gum and heroin, together with 672 psychotropic drugs.

Senior Mexican officials say Mr Salinas's main concern is to obtain better access to the US market for steel manufactures and textiles.

Mexico has also been seeking a framework agreement on trade defining more clearly what access Mexican goods will have in future, not the least for the sake of potential investors, national and foreign.

Apart from steel and textiles, the other important sectors in this context are motor parts and petrochemicals. Cement has also become an issue with the recent move by producers in Texas, Florida, New Mexico and Arizona.

Mexican steel exports have been subject to the just-expired Voluntary Restraint Agreement and countervailing duties on subsidised production.

Textile trade is governed by a binational accord under which Mexican manufacturers have been able to fulfil more than 80 per cent of quotas for only 20 out of 120 product categories covered.

Colombia drug suspect likely to go free

By Sarita Kendall in Bogota

THE BIGGEST catch so far in the drug war may go free because it seems there are no outstanding charges against him in Colombia or the US.

Mr Evaristo Porras, captured just over the southern border in the Ecuadorean town of Tulcan, has been linked to the Medellín cartel in several police investigations, but has never stayed in jail for long.

Mr Porras was jailed in Lima on cocaine trafficking charges in 1978, but escaped. He was also jailed by Colombian police in early 1987 and released by a military judge, despite requests for his extradition to Peru. His name was mentioned repeatedly in cases connected with the murders of prominent figures, such as Justice Minister Rodrigo Lara Bonilla.

Drug investigators believe he started on the processing side of the cocaine business based in Leticia, where the frontiers of Peru, Brazil and Colombia meet at the Amazon. Although he is apparently going to be returned to Colombia, Mr Porras may turn out to be an embarrassment for the authorities unless the US can produce a case against him within a few days.

● Los Angeles has claimed the dubious honour of being the drug capital of the US, with the seizure by federal agents on Saturday of more than 20 tons of cocaine from a warehouse north of the city, Louise Kehoe reports.

The 20-ton haul, prompted by a tip-off from local residents, is the biggest on record, officials said. They "conservatively" estimated the wholesale value of the drugs at $2bn (£1.2bn), but Los Angeles police said it had a street value of close to $10bn.

GLOBAL INTEGRATION THROUGH OVERSEAS INVESTMENT

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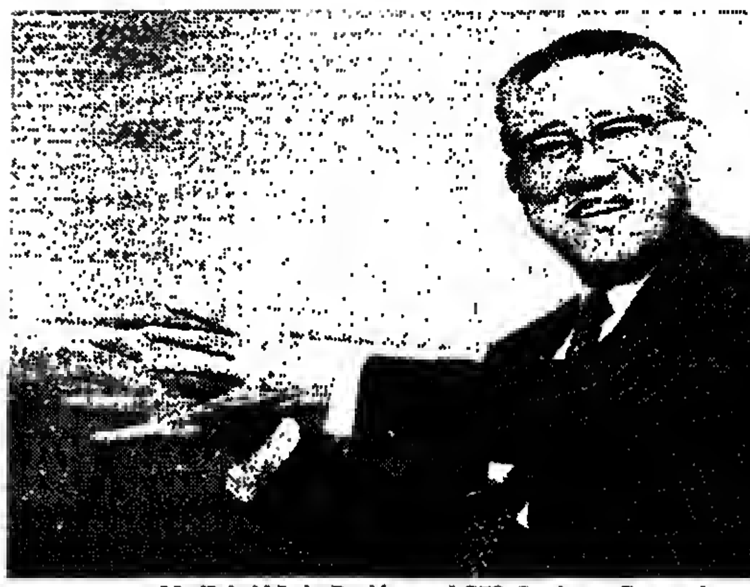
Balancing Flexibility and Prudence

As one of Japan's largest sogo shosha or trading houses, Sumitomo Corporation is riding the boom in Japan's services sector, which is ushering in a new era of growth. Sumitomo Corporation's President and CEO, Tadashi Itoh, explains.

By Brian Robins



Mr. Tadashi Itoh, *President and CEO, Sumitomo Corporation*

***Robins:** What have been the most significant recent corporate developments at Sumitomo Corporation?*

Itoh: As you are aware, the main function of the sogo shosha in Japan is the trading and distribution of goods. But, with the structural change under way in Japan, and the growth of the services sector, we have had to change, and we are emphasising the so-called "soft" industries.

Our main role still remains trading, but what we have added is investment in new areas. Of course, with trade pressures, the tack is now to sell more goods domestically. In the past, we needed to know the production capabilities of suppliers, but now we need much more knowledge of the needs of consumers, and much of our new investment is in downstream areas of the services sector.

Surging Counter-Trade Activities

A third very important area in the past few years is counter-trade. There are more than 90 countries that prefer to pay in goods, not cash. We at Sumitomo Corporation have detailed information on tens of thousands of customers around the world, and we have a unique capability of being able to handle any type of goods.

So, by focussing on these three areas, using our integrated strengths across a broad range of industries, we will be able to achieve further sustained growth well into the next century.

***Robins:** Specifically in the so-called soft areas of industry, what areas are you focussing on?*

Itoh: The so-called soft areas are of the greatest importance to our future.

Service Sector Investments Surge

The one area in the service sector doing very well now is cable TV. Our decision here, in contrast to others who have focussed on satellites, is to target the programming and software end of this industry. So, we're doing several things ranging from programming, direct investment in new cable TV systems, and even using our expertise to offer consulting services.

There are also some selected projects in the property development sector in Japan, one being a ¥400 billion commercial-residential project on the waterfront only a short distance from Tokyo Station. There are also others, involving marina developments around Japan, as we prepare for an era where leisure plays a greater part in life in Japan.

***Robins:** One area of growth in recent years has been Japanese companies investing offshore. What role is Sumitomo Corporation playing?*

Itoh: There are several ways we are working with companies moving offshore. With some, we are investing directly. For companies without direct experience overseas, we can provide executives, for example, while in other areas we are developing real estate to service the needs of groups investing directly overseas.

One typical example is a new distribution centre in Thailand, which will play an important role in the local economy.

***Robins:** As a trading company, how is Sumitomo Corporation involved in the high-tech industry?*

Itoh: For many of the new industry areas we are moving into, advanced technologies play an important role. And clearly, we are active in seeking out new technologies which may be of advantage to our clients.

With specific regard to the United Kingdom, we have introduced new safety systems developed by the UK Atomic Energy Agency, which will have a strong impact on improving environmental safeguards. Its systems also have some application to chemicals, biotechnology, aviation and other industry areas.

As well, we have taken up a small equity in Celltech, a biotechnology research operation, and we are the agent for its technology here in Japan.

In the cancer research field we have forged key alliances with the Imperial Cancer Research Fund Technology and also the Cancer Research Campaign Technology, along with the Medical Research Council, where we are its agent in Japan.

In our traditional trading company operations, we are engaged in a variety of projects sourcing foreign high-tech goods, and supplying them to local buyers in Japan.

***Robins:** M&A has become increasingly popular in Japan, what role does it play in Sumitomo Corporation's strategy?*

Itoh: We would not get involved where it becomes trading companies like goods—buying and selling simply for profit. We've seen the entire situation of LBO's as defensive manoeuvres. In its wake, the company's borrowings increase, which weakens both the company, and also the industry. Clearly, we are not interested in that.

But we will consider opportunities on our own as a means to expand our business, or expand our distribution capabilities.

***Robins:** One area where Sumitomo Corporation has been extremely active recently is in raising fresh capital. Can you provide some details?*

Itoh: As you may know, we have a reputation for having the best financial structure of any of Japan's sogo shosha.

Active Fund Raising Programme Completed

In March this year, we raised ¥100 billion through the stockmarket here in Japan, another ¥100 billion was raised through a domestic convertible bond issue, and a further US$1.5 billion through a warrant bond issue in Europe. In total, we raised approximately ¥400 billion (£1.8 billion).

These various issues have helped to expand our equity base, and the funds have been used to broaden our trading business, as well as to finance new investments.

If market conditions are attractive again in the future, then we will raise more equity over time, but it really depends on the market.

***Robins:** There has long been speculation that Japan's sogo shosha will move further into the field of financial services. What is your view at Sumitomo Corporation?*

Itoh: I can't speak for the other sogo shosha, but from my perspective, we will not make such a big push into this field. But we will use our strength in trading to grow further in the future.

If we were to move further into financial services, we would have to compete directly with the trust banks, city banks, securities companies and the like.

Strength in Financing

Rather, we would prefer to stick to areas of our own strength. As you know, there is a strong financial component to our business, and we have accumulated extensive knowledge in this area, but to go from this to begin specialising in the financial services sector is quite different.

In selling goods, we must offer very competitive financial terms, and we must have distinct financing capabilities, which we have.

***Robins:** How would you describe your management approach here at Sumitomo Corporation?*

Itoh: There are two sides to our corporate philosophy, which has been in use now for 400 years, and has worked well.

Prudent and Flexible Approach

One part is being very prudent and, in some ways, quite conservative. That is demonstrated by our financial condition, for example, which is very sound.

The other side to this is to respond constantly to changing times, which requires foresight and flexibility. This is demonstrated by our activities now in moving further into the services sector.

***Robins:** Given the extraordinary political developments in central Europe, together with the changes under way in both the USSR and China, this presents many opportunities for Japan's trading houses. What is your view?*

Itoh: It certainly has been very interesting watching recent events unfold. Look at Eastern Europe, where we have been involved for some time. We foresee excellent opportunities emerging there.

Also, with the USSR. To the extent that perestroika succeeds, this will create additional opportunities, even though we have not seen much change to date.

China is a slightly different situation, where economic change proceeded faster than political change, and moved too far ahead producing destabilising results. We certainly hope that China achieves stability quickly, so that it, too, will produce additional opportunities.

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Fed checks BNL clearer in effort to unravel deals

By Alan Friedman in Washington

FEDERAL Reserve Board inspectors probing some $3bn worth of unanthorised Iraqi loan commitments by the Atlanta, Georgia branch of Banca Nazionale del Lavoro (BNL) have combed the books of the Wall Street headquarters of J P Morgan, the bank which cleared a substantial part of the transactions.

The scandal over BNL's Iraq lending has already prompted the resignation its two top executives in Rome and the sacking of half its Atlanta staff.

It has also prompted growing concern among Western Governments that up to $1bn of the BNL Atanta funds were used to help Iraq procure sensitive military equipment and technology.

Although the Fed declined to comment on tbe issue, it is understood that the purpose of tbe inspection by the Fed's eupervisory department has been to reconstruct a complex web of financial dealings between Atlanta and Iraq.

Morgan said of its role as clearing bank for BNL Atlanta that it had provided "only routine collections and payment services and normal extensions of overdraft credit of modest amounts and short duration as necessary to facilitate payments."

Morgan is understood to have engaged in clearing transactions on behalf the Italian bank's Atlanta branch over a 17-month period np to July 1989, passing on payments to the Iraqi central bank and other banks. But the New York bank said its role as clearer did not include providing any of its own funds for BNL's lending or trade financing activities.

Mr Luigi Sardelli, former head of BNL's North American operation, said at the weekend that he "never knew" that Morgan was acting as clearer for the Atlanta Branch.

It has meanwhile emerged that BNL is likely to disburse a further $550m of Atlanta-generated loans despite growing international concern about the scandal. BNL has already paid out $1.85bn of its total $3bn of Iraqi loan commitments.

Peking's birthday fireworks parody June 4 clampdown

By Peter Ellingsen in Peking

TIANANMEN Square was rocked by explosions and spectacular flashes of light yesterday as China's leaders, in an unconscious parody of the military clampdown four months ago, stage-managed a theatrical extravaganza to celebrate 40 years of communist rule.

Not since tanks and troops of the Peoples' Liberation Army fired at random on pro-democracy demonstrators on June 4 had the sky above Peking's central square reflected snch activity.

Yesterday, it was a harmless fireworks display, meant to mark four decades of New China, but as a boycott by many Western embassies testified, the birthday "bash" was haunted by memories of the massacre.

Though the weapons of security forces patrolling the square were silent, their presence was evidence of the tactics used to crusb dissent.

Authorities feared the event would be used to protest at the slanghter, but with invited "guests only" crammed into tiered seats in front of the Forbidden City, there was no deviation from the official script.

Dominated by colour and spectacle, the weekend's festivities were designed to evoke something like the Seoul Olympics. Bnt with the content orchestrated and wooden, they ended up suggesting the rigidity of Pyongyang.

Young girls in pressed tunics executed choreographed routines on the Square, heavily made-up children aped nationalistic patomimes, and everwhere there were paeans to the Party. On the wall of the Academy of Social Sciences, where academics had draped slogans calling for political reform, there were posters attacking "bourgeois liberation", or Western valnes, and in most hutongs (laneways), Party-controlled work units had arranged for the patriotic display of flags.

China on its fortieth anniversary was stable on the surface but shaky beneath. With Deng Xiaoping, tbe paramonnt leader, struggling to balance divisions within the new leadership and differences festering over how far to take the purge of liberal elements, the country has still to recover from the horror of June 4.

The man Deng wants to succeed him – Party chief Jiang Zemin – hinted at the hard line to be followed, in a nationally-broadcast speech in which he used the terminology of the 1960s and 70s to attack Western attempts to "subvert" China's Government and bring in capitalism. "Hostile forces, international as well as internal, are still engaged in activities of sabotage and subversion," the Party chief said.

Drawing on phrases rarely used since the end of the Maoist era more than a decade ago, Jiang said China was engaged in a "serious class struggle", and would "isolate and attack the handful of hostile elements" behind the democracy movement.

Acknowledging there was a difference of opinion on how to implement economic reform, he said modernisation in China would be governed by communist ideology and not embrace "total Westernisation".

The speech was harsher than many expected, and gave the strongest indication yet that the Party was serious about purging liberals, re-establishing central control and restraining growth to limit private enterprise and stop inflation.

In an at-times-emotional address, Jiang, said: "If China doesn't persist in socialism, and instead (returns) to the capitalist road, the majority of the people can only be reduced once more to an extremely impoverished status".

Economic reform and the open door policy would continue, Jiang went on, noting that some Western ideas on democracy and legal procedures could be used. "But they must not be copied indiscriminately."

The line was echoed last night by Li Peng, the Prime Minister, who began an address to VIPs by paying tribute to Chairman Mao Zedong.

A soldier sings that popular number "Without the Communist Party There Would Be No New China" at yesterday's anniversary celebrations in Peking

Li conceded mistakes had been made and signalled that political indoctrination, largely abandoned in recent years, would return, by telling schools they should give "top priority to fostering a firm and correct political orientation and work hard to train a new socialist generation".

Li blamed Zhao Ziyang, the disgraced former Party boss, for fermenting the "turmoil", but indications are that Deng has decided against putting Zhao on trial and will instead isolate him.

● About 5,000 Hong Kong residents braved squally rain to mark the 40th anniversary of the founding of Communist China with rallies protesting against the June 4 killings in Tiananmen Square, Reuter adds from Hong Kong.

The demonstrations drew only a fraction of the crowds seen in June and July when up to a million people took to the streets to express horror and grief at the brutality of China's crackdown on the student-led pro-democracy movement.

Police, fearing a repeat hostile protests which took place on Friday, clamped tight security around the New China News Agency (NCNA), China's unofficial embassy. The building has become a focus for anti-Peking protest in this British colony that reverts to Chinese rule in 1997.

Only a handful of protesters had turned by late afternoon to demonstrate outside the tightly-shuttered NCNA building.

Broederbond meets ANC in England

A SOUTH African organisation with close ties to the ruling National Party met members of the banned African National Congress outside London yesterday, Agencies report.

The news of the meeting between the secretive Afrikaner Broederbond and the ANC was further indication of significant political movement in South Africa.

The Broederbond group is led by Mr Wimpie De Klerk, brother of the new South African State President, and consists of prominent figures believed to be close to senior government ministers.

These include Mr Gerrit Viljoen, the Constitutional Planning Minister, who is spearheading negotiations with blacks over a new constitution. He is also a former chairman of the Broederbond.

The ANC delegation is being led by a senior member of its executive, Mr Thabo Mbeki, who is regarded as a likely successor to the ailing Mr Oliver Tambo as president.

According to the Johannesburg Sunday Times, several prominent Afrikaner academics will be among the Broederbond delegation, including Stellenbosch University Rector Professor Mike de Vries and philosophy professor Willie Eeterhuyse. The latter is viewed as particularly important in influencing government thinking.

A Foreign Office spokesman in London said: "We are aware of the meeting. But it is not being organised by the British government. We have no information about the nature of the talks."

Brazilian inflation hits 36% a month

Inflation in Brazil has hit a new record rate of 36 per cent a month, up from 29 per cent in August, forcing the Government to launch another campaign to persuade business to moderate price rises, Ivo Dawnay reports from Rio de Janeiro.

Mr Mailson da Nobrega, Finance Minister, will today hold talks with top industrialists, but remains adamant in refusing to adopt any "heroic measures" to stem the tide of increases.

Instead, the minister has merely promised to slow the rate of increases in the public sector tariffs and maintain price, and fiscal control.

Moscow and Tokyo want peace pact

The Communist Party daily Pravda said yesterday that the Soviet Union and Japan were actively seeking a way to sign a post-war peace treaty and confirmed that President Mikhail Gorbachev, the Soviet leader, would visit Tokyo in 1991, Reuter reports from Moscow.

Pravda also discussed the Soviet-Japanese feud over four islands in the Kurile chain in far more relaxed terms than previous Soviet media reports on the subject.

Polisario ends unilateral truce

The Polisario Liberation Front, which has been fighting against Morocco for the independence of the former Spanish colony of the Western Sahara since 1975, has ended the unilateral truce it declared nine months ago, Francis Ghilès reports.

The Front claimed in a communiqué at the weekend to have captured an observation post in the Dahlou region a week earlier, blown up a munitions dump and killed four Moroccan soldiers. The Moroccan Forces Armées Royales declined to comment.

Aquino reviewing ban on Marcos

President Corazon Aquino of the Philippines said yesterday her ban on allowing the body of Ferdinand Marcos, the former leader, into the country was not permanent, and that she would respect whatever ruling the Snpreme Court made, Reuter reports from Manila.

Vice-President Salvador Laurel, a leader of the political opposition to President Aquino, said the ban was illegal and would be challenged through a petition to be filed with the Supreme Court on Monday.

ANC burial for tribal chief

A tribal chief who was a close relative of Mr Nelson Mandela was reburied yesterday, under the flag of the African National Congress, Patti Waldmeir reports from Umtata.

The funeral of King Sabata Dalindyebo, a Xhosa paramount chief and member of the same royal house as Mr Mandela, was held at the royal burial ground of the Thembu clan outside Umtata, capital of the nominally independent black homeland of Transkei.

Rebuke to Lebanese Christians

By Lara Marlowe in Taif, Saudi Arabia

A DIMINUTION of the political power of Lebanon's Maronite Christians is the likely outcome of the meeting of Lebanese MPs which is being held in Taif, Saudi Arabia. The meeting entered its second day yesterday.

Prince Saud al-Faisal, Saudi Foreign Minister, told journalists yesterday: "We have started by addressing the inter-Lebanese problem". This was a veiled rebuke to Maronite Christians who maintain that there is no inter-Lebanese conflict but only a conflict between Lebanon and Syria.

It also implied that the issue of the withdrawal of 40,000 Syrian troops from Lebanon will not be addressed in detail at this conference.

None the less, sources close to Maronite deputies said that Prince Faisal assured Christians Georges Saade and Michel Sassine in a 2½-hour meeting on Friday night that if the Christians would agree to the Arab League's plan for reforms, Saudi Arabia would guarantee an eventual Syrian withdrawal.

Except for the opening meeting on Saturday morning at which Prince Faisal and Mr Hussein Husseini, the parliament's Speaker, gave the only speeches, the debates have been closed. Saudi officials stress that they are "informal" rather than "secret."

Mr Saeb Salam, the 84-year-old Sunni Moslem who has twice been the Prime Minister of Lebanon and who has been living in Switzerland for seven years, issued a written appeal to "our Maronite brothers" for moderation.

A Saudi instrumental in setting up this meeting of Lebanese parliamentarians said it could encceed where others have failed because there has never before been such an international conseneus on the need to end Lebanon's civil war; and every party to past fighting, inclnding the Druze, Palestinians and Hizbollah, were "tired and cornered."

Japanese ruling party scores important by-election victory

By Stefan Wagstyl in Tokyo

JAPAN'S ruling Liberal Democratic Party, which suffered its biggest electoral setback in more than 30 years in the summer, yesterday won an important confidence-building by-election victory.

The result, in Ibaraki Prefecture, north of Tokyo, reflects a modest decline in public anger at the financial and sex scandals which have plagued the party over the past year and a growing acceptance of an unpopular consumption tax.

The verdict also shows a measure of disillusion at the failure of the opposition parties, led by the Japan Socialist Party, to present coherent alternative policies to the LDP.

The poll will boost the LDP's efforts to rebuild support in advance of the next general election which has to be held by next summer.

Last July, the party narrowly lost the contest for Ibaraki during the national election for the upper house of the Diet (Parliament). Yesterday it won the fight for a lower-house seat by a comfortable margin. With 98 per cent of the votes counted, the successful LDP candidate had 460,883 votes, against 387,923 for the socialist runner-up.

The party cannot afford to be complacent – Ibaraki, a constituency of countrside and small towns, was once an LDP stronghold.

Yesterday's victory, with a winning margin of just over 70,000 votes, would once have been regarded as a disappointment.

Mr Toshiki Kaifu, the prime minister, last night hailed the result as an important success for the LDP. Socialist party leaders said the verdict was "very regrettable".

The most immediate effect of the poll will be to strengthen LDP morale in the Diet, which re-opened last week after a long summer recess. Mr Kaifu was due to make a key policy speech today.

Opposition parties have staked much on bills urging scrapping of the consumption tax, generally seen as the single biggest cause of the LDP's defeat in July, when it lost control of the upper house.

Opinion polls in recent weeks have shown a growth in acceptance of the LDP'e arguments that the tax should be reformed rather than abolished. Yesterday'e poll bears this out.

Ibaraki voters, questioned by Japanese reporters, often said they accepted the LDP's arguments that the income from the tax was necessary.

What they objected to most was the way the tax had been introdnced – without enough public consultation – and the way it was applied to items such as food.

The by-election is a personal triumph for Mr Kaifu. It means his re-election as party president, due next month, is likely to be a formality. It should strengthen his hand against party elders who have sought to control his Cabinet behind the scenes.

For Miss Takako Doi, the socialist party leader, the Ibaraki poll is a setback. The party did well in the summer, but this time, her appearances in Ibaraki were not enough to sway the electorate.

Prosecutors clash with Seoul MPs

By Maggie Ford in Seoul

CONFRONTATION between South Korea's Parliament and its prosecution officials is inevitable following tbe Prosecutor-General's refusal to accept a summons to testify before the National Assembly.

The two opposition parties yesterday said they would demand the resignation of Mr Kim Ki Choon, tbe Prosecutor-General who, they charged, had given up the prosecution's duty of political neutrality and was proving the greatest obstacle to democratic change in the country.

The Prosecutors' office has played a leading role in a crackdown initiated by hardline members of the Government over the past six months.

Prosecutors have approved the arrest of thousands of students and workers, many charged with breaking the Draconian National Security law.

Last week, the Prosecutors said they were investigating 21 Members of Parliament for alleged offences relating to bribery, influence peddling and unanthorised contacts with North Korea.

They have also taken a hard line in the courts, demanding the death sentence for three students allegedly involved in an incident earlier this year in which seven riot policemen were killed.

Under the Sonth Korean constitution, the National Assembly is entitled to summon whoever it likes to give evidence to its committees.

But the Prosecutor-General has argued he only has to give evidence to the Assembly's Legislation and Jndiciary committee, not the Labour committee which has issued the summons.

Five Opposition members of the Labour committee are on the list of MPs who are being investigated by the prosecutors.

Barrett enters NDP race

By Robert Gibbens in Montreal

MR David Barrett, the populist Premier of British Columbia from 1972 to 1975, has jumped into the Federal New Democratic Party leadership race with a denunciation of Quebec and a call for Canada to lead "a war on global pollution."

Mr Barrett, who now represents a Vancouver constituency in the Federal Parliament in Ottawa, has strong backing from Western Union leaders and from a group of Federal NDP caucus members who are worried about the line-up of leadership candidates.

Mr Edward Broadbent, Federal NDP leader since 1975, resigns from the Commons effective Dec 31. The party did poorly in terms of seats in the 1988 Federal election, despite his personal poplarity. He has represented the industrial constituency of Oshawa, Ontario, for 21 years.

The NDP convention starts November 30 in Winnipeg and Mr Barrett's entry into the leadership race will guarantee national attention. He favours a modified Meech Lake constitutional agreement but wants the deadline for signatures extended beyond next June.

But he warns that western alienation is as dangerous as Quebec's threat to separate if it does not get special status and other concessions in the Meech Lake Agreement.

The NDP has failed miserably to make any headway in Quebec, primarily because of its centralist political position. Mr Barrett's antry into the leadership race will not make its task any easier.

The Canadian Labour Congress and other Ontario NDP groups are leaning strongly towards Mr Robert Rae, who now leads the NDP in the Ontario legislature.

NDP officials say Mr Rae will almost certainly jump into the race later this week.

Cargo of sheep left at sea after Suez decision

By Tony Walker in Cairo

A SHIPLOAD of Australian sheep rejected by Middle East countries was in danger of being slaughtered at sea and their carcasses dumped overboard unless a home was found for them, an agent for the Italian owners warned yesterday.

The agent of Siba, an Italian shipping and livestock company, said that fodder on board el Cordero, would start running out on Tuesday. It would take at least two days to provide the sheep with more feed.

El Cordero, was escorted by gunboat from Egyptian territorial waters early last week after Egypt refused passage through the Suez Canal. The ship was in international waters about 50 miles south of Port Suez.

Siba had planned to transfer the sheep to two smaller vessels to be transhipped through the canal for sale in Europe.

The agent said his company had appealed to Canberra to make the strongest representations to secure paseage through the canal. "It is now up to the Australian Government," he said.

In Cairo, a spokesman for the Australian embassy said Egypt had been asked to allow the sheep through the canal, but there was no sign yet of an end to the impasse.

El Cordero's shipment was rejected by both Saudi Arabia and Abu Dhabi on the grounds that the sheep were diseased. But officials of the Australian Meat and Livestock Corporation in Bahrain strennously deny that the animals are in any way contaminated.

Mr John Wotton of the Meat and Livestock Corporation said that the sheep would not be allowed to die on the high seas.

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by

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Notice is hereby given that The Equitable Life Assurance Society of the United States ("Equitable") has elected to assume the obligations of Equitable-Lord Realty Corporation (the "Company") under the Securities and any coupons appertaining thereto and the Indenture between the Company and Chemical Bank, as Trustee, dated as of December 30, 1985 (the "Original Indenture"). Pursuant to Section 701 (1)(B)(i)(b) of the Original Indenture, Equitable will by an indenture supplemental to the Original Indenture (the "First Supplemental Indenture") executed and delivered to the Trustee assume all of the obligations of the Company under the Securities and any coupons appertaining thereto and the Original Indenture, excluding the provisions of Sections 1006 (restriction of Company activities) and 1010 (agreements of the Company and its creditors not to institute bankruptcy proceedings) of the Original Indenture.

Such assumption will become effective on October 25, 1989 (the "Assumption Date"). The 10⅝% Notes due December 30, 1995 and the 10½% Notes due December 30, 1997 (the "Euronotes") will continue to be listed on the Luxembourg Stock Exchange under the former name followed by the new one.

The assumption by Equitable of the Securities requires neither an exchange of Securities nor that the existing Securities be stamped in any way. Pursuant to Section 705 of the Original Indenture, upon such assumption by Equitable of the Securities, all Holders of Securities will, following the Assumption Date, have the option to present any Securities they hold to the Trustee for notation of the assumption by Equitable of such obligations. The presentation of Securities for purposes of notation may be made in person at the office of the **Trustee, located at 55 Water Street, Corporate Tellers, Room 234, New York, New York U.S.A. or by mail c/o Chemical Bank, P.O. Box 25983, Church Street Station, New York, New York 10008.** Such presentation may also be made in the case of the Euronotes at the specified offices of the Paying Agents set out on the reverse of the coupons appertaining to the Euronotes that are payable to bearer.

As permitted by Section 706 of the Original Indenture and Paragraph 13(a) of the Lease Agreement between the Company and Equitable, dated as of December 30, 1985 (the "Lease"), Equitable intends to cause the Lease to be terminated effective on the Assumption Date.

Availability of Documents

Copies of the First Supplemental Indenture will following the Assumption Date be, and copies of the Original Indenture are, available for inspection at Banque Internationale à Luxembourg S.A., 2 Boulevard Royal, Luxembourg.

Equitable-Lord Realty Corporation

Dated: September 25, 1989

REDEMPTION NOTICE

To the Holders of

Ralston Purina Company

12% Notes due November 28, 1994

NOTICE IS HEREBY GIVEN that pursuant to the Terms and Conditions of the above-described Notes (the "Notes"), Ralston Purina Company has elected to redeem all of the outstanding Notes on November 28, 1989 (the "Redemption Date"). at the redemption price of 100% of the principal amount thereof, together with accrued interest to the Redemption Date.

On November 28, 1989 the Notes shall become due and payable. The Notes will be paid upon presentation and surrender thereof, together in the case of a Bearer Note ("Bearer Note"), with all unmatured coupons appertaining thereto, failing which there shall be deducted from the redemption price an amount equal to the face amount of all such missing coupons. Payment on the Notes shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts and will be made either (a) in the case of principal and interest with respect to Notes issued in registered form ("Registered Notes") Citibank, N.A., Corporate Trust Services 111 Wall Street, 5th Floor, New York, N.Y. 10043, U.S.A., or (b) in the case of Notes issued in bearer form ("Bearer Notes"), with the appurtenant coupons maturing subsequent to the Redemption Date, at the main offices of Citibank, N.A. in London, Brussels, Paris, Frankfurt/Main, Amsterdam, Milan, Citicorp Investment Bank Luxembourg or Citicorp Investment Bank Zurich.

Payments at the offices referred to in clause (b) above will be made by a United States dollar check drawn on a bank in New York City or by transfer to a United States dollar account maintained by the payee with a bank located outside the United States.

Coupons due on or before the Redemption Date shall be payable only upon the presentation and surrender of coupons for such interest (at an office or agency outside the United States).

On and after the Redemption Date, interest on the Notes will cease to accrue.

The conditions precedent to this redemption have occurred, and Ralston Purina Company has elected to redeem the above Notes.

By: Ralston Purina Company

Dated: October 2, 1989

NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States may be required by the Interest and Dividend Tax Compliance Act of 1983 unless the Paying Agent has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent when presenting your Notes for payment within the United States.

OVERSEAS NEWS

Brussels fights for accord on takeover bids

Commission will have a hard task bringing states into line, Richard Lambert writes

A COMMON set of rules to govern the conduct of takeover bids across Europe is now being debated in Brussels. Free movement of capital and the growth of cross-frontier acquisitions are what make such rules necessary. But the European Commission will have its work cut out to bring the member-states in line.

The UK is the most outspoken critic of the draft directive on takeover bids, which was published earlier this year. Mr Antony Beevor, director-general of the London Takeover Panel, told a committee of the European Parliament in September that the proposed rules would do considerable damage to the UK. "Substantial amendment is required, which goes beyond simple drafting changes," he added.

Other member-states, such as West Germany, France and the Netherlands, also object strongly to various parts of the draft directive. But their complaints are mainly about points of detail.

For the UK, the position is much more serious. The directive threatens the whole basis on which takeover rules are organised in the City, and in its present form would make it impossible to maintain the present informal, non-statutory approach to regulating bids and deals.

The detailed clauses of the directive are, from the British point of view, reasonably uncontroversial. They reflect many of the rules of the UK's existing takeover code: emphasising the importance of equal treatment for shareholders, and the need for independent advice, laying down a timetable within which bids must be competed, setting out the circumstances in which full takeover bids become mandatory.

But the sticking point for the British is that the directive, once agreed, would have to be backed by the force of law within each member-state.

This in turn would mean that decisions of the takeover authority could be challenged in the courts. According to Mr Beevor, that would be "more than just an inconvenience".

It "would mean the end of the panel's ability to react flexibly and rapidly to changing circumstances," he says. "And it would encourage the use of tactical litigation during the course of takeovers."

An important part of the panel's work at present is to offer informal guidance to companies about bids, based on a set of general principles on which the Takeover Code is built.

The panel claims that its freedom to follow the spirit rather than the strict letter of the rules makes it possible to adapt quickly to changing circumstances.

Its findings are subject to judicial review, but only after the bid process is complete. The courts can tell the panel not to make the same mistake again in the future, but they cannot apply their findings to bids which have been completed.

According to the British, all this would be overturned if the panel lost its present status and became an agency backed by statute. General principles would be replaced by detailed legislation.

Companies would no longer be able to rely on informal advice about how to conduct themselves in a bid.

Litigation would become a common feature of takeover tactics, aimed at delaying a bidder or else throwing a legal trip-wire across a defender's path.

So the Department of Trade and Industry is urging the Commission to change the directive in two respects. It wants the rules to include a set of five general principles, based on those found in the Takeover Code, and a statement that the takeover authority in each member-state should have powers to derogate from the strict letter of the law where to do so would uphold the general principles.

It wants an undertaking that member-states should be allowed to restrict the extent

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to which takeover decisions can be appealed to the courts, provided that the takeover authority has a decent internal appeals procedure in place.

The current betting in Brussels is that the British will not be allowed to get away with this. For one thing, the Commission is very uneasy about the idea that general principles should be allowed to over-ride detailed directives. For another, its starting point is that in the last resort all directives must offer a route to the European Court.

So does this spell deadlock? Perhaps not. The bureaucrats are well aware of what the British keep reminding them: that around four-fifths of takeovers within the Community arise in London, and that the UK has by far the most tried and tested approach to takeover regulation.

In its current pragmatic mood, the Commission will be looking for a compromise. The way forward may be by way of an agreement that would allow member-states to keep takeovers out of the courts until they had actually been completed. The debate then would be about the extent to which the courts should be allowed to take retrospective action.

While the British are attacking the broad principle of the directive, other member-states are unhappy with some of the details.

One of the most controversial proposals is that bidders which acquire more than a third of the voting shares in a company should be obliged to make an offer for all the rest. The West Germans fear that this would encourage hostile bids, to which they are instinctively opposed, and that it would also make life difficult for West Germany's universal banks, which have large long-term holdings in the equity of many companies.

The French think that a requirement to buy 100 per cent of the outstanding shares would be too onerous for the bidder: a two-thirds holding might be more equitable.

Another unpopular clause proposes that companies should not take action to frustrate a takeover once it is under way unless their shareholders approve.

One technique is to put lots of new shares carrying voting rights into friendly hands once the battle starts. The Dutch are among those who would be unwilling to give up this.

Other issues lurk around on the margin. Both the Economic and Social Committee and the Parliament would favour the inclusion of some kind of reciprocity clause in the rules: if you could not buy a company in, say, Switzerland, then a Swiss company would not be allowed to buy you.

Another idea is that employees should be brought into the picture, and given some kind of say in the outcome of transactions which can intimately affect their well-being. Neither of these propositions seem likely to make it into the final directive.

The debate is now being pushed along at a brisk pace under the leadership of the French, who would very much like to reach an agreed common position by the time they come to hand over the EC presidency at the end of this year.

Insiders say that this goal could be rather too ambitious. Although the directive will have an important bearing on the conduct of takeovers in Europe, it is in some respects a side issue. There are far bigger barriers to takeovers across the Community than are found in the detailed wording of the rule books.

Different ownership and financing structures, widely varying approaches to company law, the fact that the stock market plays a much greater role in, say, the UK than it does in West Germany – these are what will make it really difficult to achieve an efficient single market in the ownership of companies.

Booz Allen, the consulting group, has just completed for the Commission an 800-page study on barriers to takeovers in the EC, and Mr Martin Bangemann, the Commissioner responsible for the internal market, has promised to put forward proposals designed to level the playing field.

That will be an enormous job, and one which will generate real passion among the various vested interests. By comparison, securing agreement on the takeover directive will look like a modest exercise.

Andreotti defends budget 'to avoid bankruptcy'

By John Wyles in Rome

A 1990 budget purporting to be "the most serious attempt of the decade to reform Italy's shaky public finances" was defended at the weekend as a necessary move to avoid "bankruptcy" by Mr Giulio Andreotti, the Prime Minister.

In a televised address carried by the state's three national networks, Mr Andreotti warned that interest payments on the government's debt were now costing L300bn (£135m) a day.

He urged the public to accept the budget as a reasonable balance of sacrifices in the common interest.

Requiring seven separate legislative initiatives, the budget seeks L11,500bn of extra revenues and L8,500bn of spending cuts, to lower the public deficit from 11 per cent to 10.4 per cent of gross domestic product.

The cabinet has relied on some old staples to boost the Treasury's income, such as increasing tariffs and duties on petrol products, electricity and such government documents as passports, to bring in nearly half of the new revenues. The other half seeks its yield from a reduction of the scope for tax evasion and avoidance.

Confindustria, representing private-sector industry, quickly complained of further bruising to its competitiveness brought about by lower tax subsidies on its social security payments and a trimming of generous depreciation allowances. Together these should cost industry around L2,500bn.

In a sure sign that they see political trouble ahead in the parliament over this L20,000bn manoeuvre, Mr Andreotti and his economic ministers are seeking to use Italy's European Community obligations as justification.

Further accumulation of debts would make Italy a "dead weight" in the Community, Mr Andreotti warned, and strong measures had to be taken in the year when Rome is to assume the EC presidency.

In an attempt to bolster the credibility of the Italian presidency's ambitions to lead the Community towards greater monetary integration from July next year, Mr Guido Carli, Treasury Minister, let it be known after the budget was approved by Cabinet on Friday night that Rome hoped to abandon its remaining restrictions on capital movements before the July 1990 deadline

GOVERNMENT ECONOMIC FORECASTS

	1990	1991	1992	1993
Gross Domestic Product (%)	3.2	3.3	3.4	3.5
Inflation (%)	5.0	3.8	3.7	3.8
Deficit (% GDP)	10.4	8.8	7.4	-
Balance of payments (% GDP)	-1.2	-0.9	-0.7	-0.3

He also confirmed that by then the lira would give up its special privilege within the European Monetary System. Until the Spanish peseta's recent arrival in the currency system, the Italian lira alone has enjoyed a special freedom to oscillate within 6 per cent limits of its EMS central rate.

Rome has long known that this privilege, which has been a symbol of relative weakness, could not be sustained during the EC's looming negotiations on steps towards monetary union.

Opinion at the top of the Treasury seems to favour a two-stage approach which would first phase out the existing residual exchange controls forbidding the opening of bank accounts abroad and the purchase of short-term foreign securities.

After allowing the lira a period of adjustment to full liberalisation with its 6 per cent EMS safety net, Italy would then apply the 2.25 per cent band of oscillation applied to other currencies, except the peseta, in the exchange rate arrangement.

In fact, the lira has been kept within this band over the past 12 months in a dress rehearsal directed by the Bank of Italy.

"All the conditions for making this leap forward are there," said a senior official at the weekend, pointing out that the economic growth outlook is promising, inflation is decreasing after touching a 7 per cent annual rate and the balance of payments deficit "is not excessive".

The government forecasts accompanying the budget predict a growth rate of 3.2-3.5 per cent up to 1993, inflation declining from 5 per cent in 1990 to 3.8 per cent in 1993 and a fall in the deficit to 7.4 per cent of GDP by 1992.

After some slippage, next year's budget seeks to bring the deficit back to the target established last year, to create a small budget surplus net of interest payments by 1992.

Mr Carli stressed that the key to this was the budget's cutting of L45,000bn of future spending commitments which could have put this objective beyond reach.

Oslo, Moscow to resume Barents Sea talks soon

By Karen Fossli in Oslo

NORWAY and the Soviet Union are to resume talks this autumn in Oslo over a 15-year dispute on where a demarcation line in the Barents Sea should be drawn.

The two countries have been at odds over the demarcation of the Barents Sea comprising a disputed area covering 155,000 sq km.

Norway favours a median-line principle which follows the Geneva Convention of 1965 and the 1982 United Nations Law of the Sea Convention.

This puts the boundary farther east than the sector-line principle which is favoured by the Soviet Union.

Last year, Mr Nikolai Ryzhkov, Soviet Prime Minister, called for Norway and the Soviet Union "jointly to administer" the disputed zone on a fifty-fifty basis as an area of economic co-operation.

Norway, however, has made it clear that it will not accept a co-operative arrangement for the disputed area.

Norway's main goal is to achieve a permanent demarcation.

After this autumn's meeting in Oslo between the two countries, another meeting is scheduled in Moscow for early 1990.

The two meetings are meant to lay the groundwork for a meeting between the country's two foreign ministers, for which a time has not yet been decided.

Both Norway and the Soviet Union are exploring for oil in the Barents Sea.

The Soviet Union in 1983 identified a natural gas structure bordering the median line in the southern part of the Barents Sea, and both countries have stepped up exploration activity in the area.

SHIPPING REPORT

Tanker market holds firm but rates refuse to rise

By Kevin Brown, Transport Correspondent

THE tanker market continued to hold firm overall last week, and there was a significant improvement in demand in the Mediterranean. But rates failed to rise in most loading areas.

Brokers said the decision by the Organisation of Petroleum Exporting Countries (Opec) to increase its production ceiling by 1m barrels per day to 20.5m b/d was unlikely to have much impact on the tanker market, since production is already running at around 22m b/d.

In the Middle East, there was less interest in Very Large Crude Carriers (VLCCs) than in previous weeks, but rates remained reasonably steady.

A vessel of 275,000 deadweight tonnes was fixed from the Gulf to the West at New Worldscale 49, and Japanese charterers concluded a number of deals at rates between New Worldscale 52.5 and 57.5.

Demand for smaller vessels increased as the week wore on, and ships in the 80,000-tonnes class were being fixed to the East at around New Worldscale 150.

In the Mediterranean, VLCCs were in strong demand at Sidi Kerir and Ceyhan, and Exxon fixed a ship of 293,000 deadweight tonnes to the US Gulf at Worldscale 54.5.

Two ships were fixed for the cross-Mediterranean journey at NWS 140.

OKG

OKG AKTIEBOLAG

(Incorporated in Sweden with limited liability)

Notice to the holders of the
U.S.$50,000,000 Retractable Bonds 1997

NOTICE IS HEREBY GIVEN to the holders of the US$50,000,000 Retractable Bonds 1997 (the "Bonds") of OKG Aktiebolag (the "Company") that, in accordance with Condition 3(B) of the Terms and Conditions endorsed on the Bonds (the "Conditions"), the Company will change the rate of interest in respect of the Bonds for the period commencing on 1st December, 1989 and ending on 1st December, 1993.

BASIS FOR DETERMINATION OF RATE OF INTEREST

From 1st December, 1989 the Bonds will carry interest at the rate determined by Hambros Bank Limited to be the sum of 0.85 per cent. and the annualised gross redemption yield, rounded upwards if necessary to the nearest integral multiple of 0.05 per cent., of the 8¼ per cent. U.S. Treasury Bond due 30th September, 1993 ("the "Reference Bond") by reference to prices of the Reference Bond quoted to Hambros Bank Limited by two leading United States financial institutions at 3.00 p.m. (London time) on Wednesday, 22nd November, 1989.

The rate of interest determined as above will be notified to Bondholders on Thursday, 23rd November, 1989 in accordance with the provisions of Condition 12 of the Bonds.

RIGHT OF REDEMPTION

Under the provisions of Condition 5(F) of the Bonds, the holder of each Bond shall have the right to require the Company to purchase or cause to be purchased such Bond at par on 1st December, 1989. Such right may be exercised irrevocably by surrendering such Bond not later than 1st November, 1989 at the specified office of any of the Paying Agents listed below (the "Paying Agents"). If so requested in connection with any such exercise, the recipient Paying Agent shall deliver to the surrendering Bondholder (or his duly designated agent) a purchase certificate which shall oblige the Company, acting through such Paying Agent, to pay or cause to be paid to the bearer against presentation of such purchase certificate on or after 1st December, 1989 the principal amount of the surrendered Bond together with the interest payment due. If any Bond shall on delivery as aforesaid not have attached thereto all unmatured coupons appertaining thereto, the value of all missing unmatured coupons dated 1st December, 1990 to 1st December, 1993 inclusive will be deducted from the purchase price payable for such Bond. In the case of missing coupons dated 1st December, 1994 to 1st December, 1997 inclusive, indemnities from Bondholders will be required by the Principal Paying Agent.

If any holder of Bonds wishes the Company to redeem his Bond(s) at the redemption price (together with accrued interest) he should accordingly surrender his Bond(s) together with coupon(s) No. 8 due on 1st December, 1989 and all subsequent coupons attached at the specified office of any Paying Agent (set out at the foot of this Notice) on any business day up to and including 1st November, 1989. Any Bonds not surrendered during this period will carry the rate of interest from 1st December, 1989 as provided above.

Payment for surrendered Bonds and coupons will be made on or after Friday, 1st December, 1989.

Paying Agents

LONDON
Hambros Bank Limited
41 Tower Hill
London EC3N 4HA

LUXEMBOURG
Kredietbank S.A. Luxembourgeoise
43 Boulevard Royal
P.O. Box 1108
Luxembourg

NEW YORK
Manufacturers and Traders Trust Co.,
654 Madison Avenue
New York
N.Y. 10021

BRUSSELS
Morgan Guaranty Trust Company of New York
Avenue des Arts 35
B-1040 Brussels

2nd October, 1989

Group plans action on equality

By Eric Short, Pensions Correspondent

THE BRITISH Government is being taken to court by the Equal Opportunities Commission, the equal rights pressure group, on the grounds that the present system of payment of National Insurance contributions fails to comply with a European Community directive on equal treatment of men and women in social security.

The Government is almost certain to defend the action.

Under the system, men have to pay National Insurance contributions for at least 44 years to qualify for a full basic state pension compared with 39 years for a women.

In addition, even if a man has contributed for 44 years, he still has to continue contributions for as long as he is working until age 65, whereas women cease paying at age 60.

The EOC contends that such contribution arrangements breach EC Directive 79/7, which became binding on member countries in December 1984, and is bringing proceedings against the Government.

The EC is pledged to bring about equal treatment between men and women in the social security systems of its member countries. But it has adopted a strategy of progressive implementation towards full equality, and this directive was the second step.

The central factor in equal treatment is to have a common pension age for men and women. Once this is in place other equality factors follow.

The EC, however, has left the implementation of equal pension ages to the third directive, now being drafted.

The EOC, which has been campaigning for more than a decade for the Government to have a common pension age in the social security system, believes that the contributions arrangements and eligibility conditions for a pension contravene Article 4.

The EOC accepts that even if it proves its case, it will not necessarily force the Government to bring in a common pension age. The conditions of the directive could be complied with by an adjustment to the contribution arrangements.

Although the case will initially be heard in the High Court, it may be referred to the European Court of Justice for a decision on certain aspects.

Next likely to restructure loss-making businesses

By Maggie Urry

NEXT, the fashion retailer, is expected to announce a radical restructuring of its business when it releases interim profit figures on Thursday.

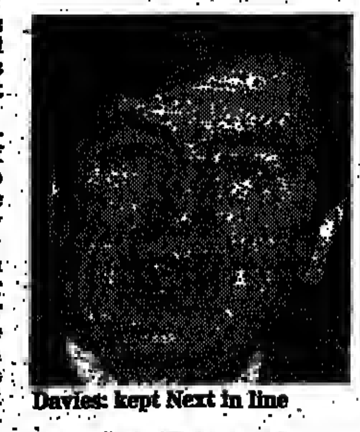
The plan, designed to eliminate the loss-making parts of the business, is likely to involve store closures and the sale of the Next Jewellery chain.

The news will coincide with the launch of a book by Mr George Davies, the former chairman and chief executive of Next who was sacked in December over what was described as a "fundamental disagreement concerning management style."

The book, entitled What Next?, puts Mr Davies' side of the story.

Under Mr Davies' control, Next achieved startling growth and changed the look of Britain's high streets. However the group was still expanding fast when the squeeze on consumer spending started and financial controls in the business appear not to have kept pace with its growth.

Next's profits have been under pressure since before Mr Davies' departure and fell by a third to £62.3m in the year to the end of January. The City is expecting first-half pre-tax profits to have fallen by a third



Davies: kept Next in line

again, from £30.9m to £20m.

Mr David Jones, who took over as chief executive, is expected to announce the closure or reduction in size of about 15 large stores, the sale of Next Jewellery and the sale of Biba, the group's profitable West German retail chain.

Analysts hope this action will allow Next'e profits to improve in its 1990-91 financial year, even if trading does not pick up. The group is also saving costs in its Grattan home shopping division through a move to a new warehouse.

The 15 stores represent a disproportionately large percentage of the group's sales area but are loss-making because insufficient sales have been generated to cover overheads.

Action would probably be taken after the Christmas peak. Since turnover of staff is high there might not need to be compulsory redundancies.

Negotiations for the sale of the Next Jewellery chain of 50 shops are believed to be near completion. It is thought to be making a significant loss.

The Biba chain, which Next acquired with Combined English Stores in 1987, has about 60 shops and is thought to be worth about £60m.

The group has already reduced the number of its stores, closing about 50 small shops. It is concentrating on medium-sized stores, of 2,000 to 5,000 sq ft where its profit margins are highest, stocking its women's and menswear ranges. Accessories and childrenswear are taking a secondary role. It is known to have had a poor spring/summer season but its autumn ranges have been better received, analysts hope.

Next has already sold a number of peripheral businesses, such as its newsagent chains and Mercado, a carpet wholesaling business. Its balance sheet is thought to show net assets of about £400m and debt of about £150m.

Speculation mounts over AMP bid for Pearl

By John Ridding

THE CHAIRMAN of Pearl Group, Mr Einion Holland, will today meet his counterpart at Australian Mutual Provident, Mr David Anderson, amid mounting speculation that AMP is set to make a bid worth more than £1bn for the UK life insurance company.

Pearl said yesterday that the meeting had been arranged months ago.

Shares in Pearl rose sharply last Friday, from 508p to 552p, on reports of an imminent bid from AMP, Australia's largest life insurance company. AMP is Pearl's largest shareholder with an 18 per cent stake.

AMP, which holds about 30 per cent of the Australian life assurance market, is looking abroad for further expansion.

Earlier this year AMP overcame court battles and resistance from some policyholders to merge with London Life, the mutual life office. At that time it said it was aiming to win a 5 per cent share of the UK life assurance market.

Mr Ken McKay, a spokesman for Pearl, yesterday played down the prospects of a bid. "There has been no indication from AMP that they are considering a bid. As far as we are concerned the rumours are unfounded speculation," he said

Analysts estimate that an offer for Pearl would have to be in excess of £1bn, or in the region of 600p a share. However there has been some scepticism about the likelihood of a bid from AMP.

They argue that an acquisition of Pearl, which has a market capitalisation of almost £1bn, would present problems for AMP because as a mutual insurer it would have to use policyholders' cash rather than shareholders' funds. In addition, there would be a large goodwill write-off to its asset base.

Mr McKay said today's meeting between Mr Holland and Mr Anderson had been arranged in June when AMP acquired a 13.5 per cent stake in Pearl from FAI Insurances, another Australian insurance company, to take its holding to 18 per cent.

THE LABOUR PARTY CONFERENCE

Kinnock kills 'tactical' PR move

By Michael Cassell, Political Correspondent

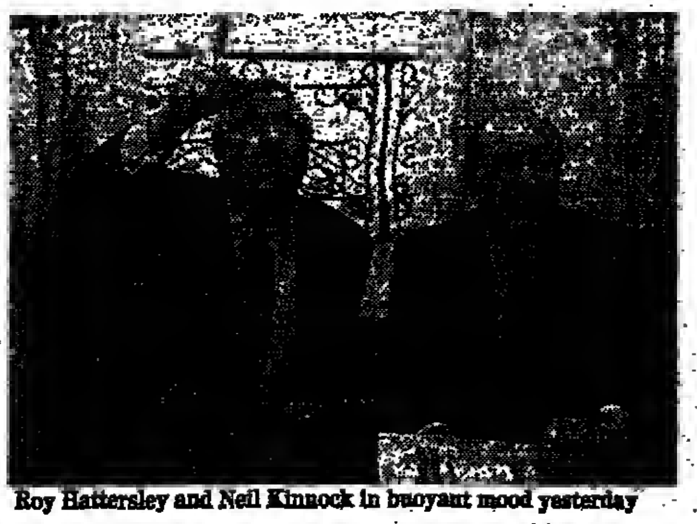
MR NEIL KINNOCK, the Labour leader, yesterday effectively killed off an attempt to push his party towards the adoption of proportional representation before the next general election.

The party's ruling national executive committee defeated, by 20 votes to four, a move to establish a working party on electoral reform and to report back to next year's conference. Immediately afterwards, several members of the NEC pledged to continue the fight.

With pressure mounting among some trade unions and constituency parties for the party to move towards a form of PR, Mr Kinnock told the NEC that, although he would *not discourage debate on the* issue, he believed those in favour of PR were proposing "a gigantic and fundamental *change" in the voting system* for short-term, tactical purposes.

The Labour leader claimed *that, with a significant lead in* the polls, the party was going to put the present Government out of office on its own.

He was supported by Mr Bryan Gould, the trade and industry spokesman, who said PR would only give life to third *parties which were "clinging* on to a lifeline until the cavalry approaches to rescue them".



Roy Hattersley and Neil Kinnock in buoyant mood yesterday

Mr Roy Hattersley, the deputy leader and strong opponent *of PR, dismissed as* nonsense claims that the system was more democratic.

He forecast that Labour was *going* to win the election on its own and possibly with an overall majority of the vote.

But Mr Robin Cook, the *party's health spokesman* and an NEC member, attacked the first-past-the-post system as perverse and undemocratic and *said he fundamentally dis*agreed with those who clung to its continuation.

He rejected the leadership's view that PR would give a disproportionate level of influence *to centre parties, claiming that* Labour had, in any case, gone to endless lengths in its policy review to attract the centre ground.

Although the leadership expects a relatively trouble-free conference as the party *adopts the conclusions of its* two-year policy review, a heated debate is expected this morning over a composite motion on nuclear energy, moved by the National Union of Mineworkers, which calls for all nuclear reactors to be phased out over a 15-year period.

The NEC only narrowly defeated the motion, by 14 votes to 12, and the NUM is expected to reject calls for it to be remitted. Mr Larry Whitty, the general secretary, said the 15-year deadline was unrealistic and unfeasible.

There was *also* some concern last night about the fate today of a motion from Tottenham constituency party demanding a cut in British defence spending to come into line with the average level in other Western European countries.

The motion calls for the savings to be transferred to spending on a range of social *programmes.*

Mr Kinnock told the NEC meeting that the argument was inconsistent with the policy review. *Labour's defence team* believe the proposal could mean a cut of up to 25 per cent in defence expenditure over *the first five years of govern*ment.

The NEC comfortably voted down motions for debate, also *today, on the economy*, which called for the next Labour government to implement a major *extension* of public ownership which would embrace "the commanding heights of the economy."

Skinner seeks return to basics in comic opener

A STRONG, if humorous, warning for Labour not to desert the basic principles of socialism was delivered to the party's leadership yesterday by Mr Dennis Skinner, party chairman and MP for Bolsover.

Delivering the traditional chairman's curtain-raising speech in end of *the pier style*, he ensured that Mr Neil Kinnock at least began the week with a smile.

But the party leader was left with no illusions that his red-rosed policy review will be passed without complaint from the Labour left.

Mr Skinner – known in the Commons more as entertainer than economic guru – raised laughs at the expense of most of the Cabinet. More people had watched Sky TV than had seen the new Foreign Secretary, Mr John Major. Mr Douglas Hurd, the Home Secretary had been inspired to try out *electronic tagging after* Mark Thatcher got lost in the desert. The Blackpool humour moved to Brighton without a hitch.

But delegates cheered when he gave his pennyworth on *what a Labour Government* would do with privatised utilities such as water and gas – a subject the leadership are trying to bury quietly after the reported differences between Mr Kinnock and Mr Bryan Gould, the party's industry spokesman, on whether dividends will be paid to shareholders or not.

"Take water *back without* compensation!", he declaimed – to obvious enthusiasm.

An equally robust defence of the importance of picket lines was made, with Mr Skinner *feigning* ignorance that this is one image the party leadership is scarely trying to play up.

Most telling was his comment: "There is a political vacuum opening up for us – there will always be a need for socialism."

But Mr Kinnock appeared untroubled. Their fingers are crossed, but the leadership are hopeful of an unusually smooth run this conference.

Unilateralists attack Kinnock

By Ivor Owen, Parliamentary Correspondent

THE DECISION by Mr Neil Kinnock to call on the Labour Party to end its commitment to unilateral nuclear disarmament was attacked by a member *of his Commons* front bench team before the conference got under way.

Mr Frank Cook, MP for *Stockton North, who is Labour* Whip on defence issues, reaffirmed his commitment to unilateralism at a well-attended rally staged by the Campaign for Nuclear Disarmament.

He and two other Labour MPs – Mrs Maria Fyfe (Maryhill) and Mr Keith Vass (Leicester East) – accused Mr Kinnock of being mistaken in his belief that Labour's electoral prospects would be fatally damaged by continued advocacy of unilateral nuclear disarmament.

Mr Cook dismissed suggestions that Labour could advance towards the same objective as the unilateralists by gradually phased and balanced reductions in nuclear weapons. He said they were *"too sophisticated"* to win general support.

He acknowledged that Mr Kinnock was likely to secure a *majority for his changed* stance on unilateralism when the conference voted on the issue later today, but insisted that he would campaign inside the movement to get the decision changed.

Mr Cook sent this message to Mr Kinnock: "We can never be a strong deliverer if we seek to compromise with error."

Mr Cook hinted that his stand might cost him his front bench post and possibly lead to him being removed from the Labour Party delegation chosen to attend a NATO meeting in Rome on Thursday.

Mr Vass, who declared pride in his commitment to the unilateralist cause, poured scorn on those in the party leadership who had changed their minds.

He said if they wished to get into bed with the bombs and *the bombers it was a matter* between "them and their psychiatrists."

Mr Vass called for opposition to the "cosmetic gloss" about to be put on the party's defence policy and received a quick response when he suggested that it would be signalled by shouting the slogan: "No nukes here."

Mr Glyn Ford, leader of Labour's MEPs at Strasbourg, said whatever decision was reached by conference CND should continue its activities in the UK and on the continent.

Leaders 'must cost reforms'

By Philip Stephens

THE LABOUR leadership was yesterday challenged by a prominent left-wing member of the party's National Executive Committee to put a "price tag" on the economic and social policies contained in this year's Policy Review.

Mr Ken Livingstone said that by failing to cost proposals ranging from massively-increased investment in educa*tion, training and research* to increased spending on the National Health Service, the party risked defeat at the next general election.

He said on Independent Television that Labour had to accept that it faced a clear choice. Either it had to increase the taxes paid by millions of ordinary people or be ready to cut defence spending and force the repatriation of British capital from abroad.

Company donations to Tories nearly halved

By Philip Stephens, Political Editor

CORPORATE donations to the Conservative Party slumped from £5.25m in 1987 – the year of the last general election – to £2.93m in 1988, according to an analysis published today by an independent trades union and labour organisation.

The *annual survey produced* by Labour Research puts the construction company Taylor Woodrow at the top of the list *of the Conservatives' benefac*tors with a donation last year of £111,455. It was followed by P&O and Allied Lyons, who donated £100,000 and £92,000 respectively.

Other leading contributors were Hanson, British & Commonwealth, United Biscuits, Consolidated Goldfields, Trusthouse Forte, Glaxo and Mountleigh.

Labour Research says that the slump in donations reflects the pattern under which business support for the Conservatives rises sharply in election years and falls back until the next poll.

Only 246 companies made donations in 1988 compared with 397 the previous year and 14 of the Conservatives' leading supporters cut their contributions by £25,000 or more.

Among different sectors, financial institutions in the City represented the largest supporters, with contributions of £940,000 representing a third of all donations.

Manufacturing companies including brewers, distillers and food companies emerged as the second largest group, handing over £507,000, while the construction companies accounted for donations of £372,000.

Ridley to consider plans for auctioning air waves

By Hugo Dixon

PROPOSALS FOR auctioning the air waves are to be put to Mr Nicholas Ridley, Trade and Industry Secretary, within the next week or so.

The proposals, in the form of a draft consultative document, were approved by Lord Young, Mr Ridley's predecessor. The cabinet reshuffle has forced the document to be re-submitted for ministerial approval.

About a quarter of the spectrum is used by the armed forces and a further quarter is occupied by civil and military uses, such as air traffic control. Of the remainder, 13 per cent is used for broadcasting, 30 per cent for fixed telecoms and 6 per cent for mobile communications.

The plan to auction off the air waves is in keeping with the Government's philosophy of injecting market forces into areas of the economy from which they have previously been excluded. It would replace an administrative system hardly changed since its institution in 1904.

Advocates of the proposals say they would result in more efficient use of the crowded spectrum. Instead of going through a "beauty contest," under which civil servants decide which companies should offer a particular service, the companies with the best ideas would be able to ensure they gained access to the air waves by outbidding competitors.

The scheme is likely to prove controversial with those who use the radio spectrum because it will increase costs. It could also provoke criticism from the European Commission, which may feel that a free market in air waves will undermine its policy of co-ordinating pan-European mobile communications services.

Potential opposition from the military, the police and the ambulance services has been defused by a promise that the public sector will not have to pay for using the spectrum – at least in the short term. Even for the private sector, market forces will be introduced in stages.

Details of the proposals have not been revealed, but the intention seems to be to auction any parts of the radio spectrum which are unused or which become available. The price paid in an auction would act as a benchmark, used to fix licence fees for people already using the spectrum.

Under such a scheme, companies such as Vodafone and Cellnet, the UK's two cellular phone operators, could face sharp increases in the nominal licence fees they now pay.

There is also understood to be a proposal for delegating the management of parts of the spectrum from the Department of Trade and Industry to private sector bodies.

For example, the gas, coal and electricity industries might be given a block of spectrum and told to run it as they thought fit.

Britain has 30 of top 100 European companies

By Christopher Parkes, Consumer Industries Editor

BRITAIN and West Germany have each taken 30 of the places in a new league table of Europe's top 100 companies.

British Airways, bolstered by its acquisition of British Caledonian, joins the elite as the highest new entrant, coming in at number 78.

British Steel makes its debut three places lower, ahead of other new entrants – the UK subsidiary of IBM, Saatchi & Saatchi, and Bass.

The table, published in the Institute of Directors magazine, Director, is based on turnover, profit, return on capital employed and sales growth.

It shows the UK has improved its relative position largely at the expense of its most powerful neighbours. France, for example, has three fewer companies in this year's top 100. Gaz de France, IBM France and retailer Casino, have all dropped out.

There was little change among the top 10 names in the league, with Shell, BP and Daimler Benz occupying the first three places. However, Fiat joined the leading group, improving from 13th to eighth place.

The only sector where Britain is under-represented, Director says, is in motor vehicles, where only the British arm of Ford figures among the top 10 car makers, in ninth place ahead of Opel.

Arranged marriage turns to love

David White looks at Plessey's change of heart over Siemens

PLESSEY has changed its mind about Siemens. For months, while it struggled to fend off the joint bid by the West German group and Britain's General Electric Company, Pleeeey argued fiercely against having its defence side split up between the bidders.

It warned about the damage that foreign ownership of parts of its military business could do to its competitiveness.

The Monopolies and Mergers Commission's report on the bid in April cited Plessey's concern that "the need to restrict access to classified material would jeopardise the efficient management of the business and the awareness of customer requirements."

Now, three weeks after the end of the battle, top managers at the £260m-a-year communications and radar businessee now belonging to Siemens feel altogether differently abont their West German owners.

"It would be easy to be almost elated," says Mr Cyril Teed, managing director of Plessey Defence Systems, the communications and electronic warfare arm, after the initial visits by Siemens to gather information.

"Siemens' whole attitude is positive, constructive and very supportive of what we're doing," says Mr Teed.

At Plessey Radar, the other defence subsidiary taken up by Siemens, there has been a similar revelation.

"The forced marriage is beginning to blossom into love," says a spokesman for the former Plessey group, which last week had its swansong as an independent concern at the Royal Navy Equipment Exhibition in Portsmouth.

The reaction contrasts with that of Plessey's naval and avionics businesses, being taken ovsr by arch-rival GEC-Marconi and still in the dark about their new owner's plans.

Mr Helmuth Wiesner, head of Siemens's defence side, has been touring the UK facilities. Next week it is Mr Teed's turn to take a team to Munich to learn about the kind of support the German group can bring to the Plessey activities.

One of the first objectives will be to see how much of Siemens's £2bn-a-year research and development programme can be tapped to provide a lift to the UK military business.

Mr Teed is confident that the takeover will not hit Plessey's prodnct range or jobs. Althongh Siemens has a defence electronics eide roughly equivalent in size to what it is taking over, there appears to be very little overlap with Plessey Defence Systems, Mr Teed says. A detailed study has yet to be done. "But I don't know of any products at the moment that we both have."

In military communications, for instance, Siemens' strength in transmission equipment is matched by Plessey's strength in switching equipment.

On the export marketing side, which is crucial in helping to defray development costs, there is a similar complementarity. Examples of this are Plessey's firm foothold in Australia and Siemens' presence in Turkey.

Plessey Defence Systems is actively recruiting and its 2,500-strong workforce should continue to grow, according to Mr Teed.

Details of the new structure have still to be resolved, but Mr Teed believes his company and Plessey Radar will continue to be run as separate operating nnits, although working closely with the German parent in marketing and prodnct policy. If anything, they may enjoy more autonomy than they have done under the Plessey corporate structure, he says.

Worries about Siemens' degree of interest in the defence business, hitherto relatively limited, have also subsided.

The German group may not be gung-ho on real weaponry, but, says Mr Teed, it is clearly anxious to increase its share of the market in areas such as communications, command and control systems and radar.

An unknown factor, however, is how far political constraints in West Germany on sales to areas of tension – and particularly to enemies of Israel - might impinge on export opportunities for the UK subsidiaries.

The split-np of Plessey's defence interests was designed by the bidders – successfully, in the end – to get around competition objections.

Plessey argued against the scheme on the grounds that the group was an integral whole, with each of the parts feeding off the others.

Whether that split will really be damaging is something Mr Teed hopes to establish as a result of next week's discussions with Siemens. "It will be easier then to judge how their technology will replace the benefits we used to get as part of the Plessey defence group."

GEC-Marconi has been barred by the Monopolies Commission from taking a direct stake in the Siemens-controlled defence businesses. But Plessey Defence Systems hopes it will be possible to keep up collaboration with the other Plessey companies now under GEC.

This collaboration includes joint projects with Plessey Naval Systems and the involvement of Plessey Avionics in some Plessey Defence Systems programmes. "There is nothing to stop discussion of whether to continue doing that," Mr Teed says.

The Government's go-ahead to the takeover placed restrictions on the level of information that Siemens can have access to, keeping non-UK nationals off the company boards which would be privy to highly sensitive projects. Coding activities have been separated from Plessey Defence Systems and transferred to GEC-Marconi.

The companies are not at liberty to discuss the other restrictions placed on Siemens. But, Mr Teed says, there is a "happy understanding" between the West German group, Ministry of Defence and the UK subsidiaries.

Labour defence attacked as 'still unilateral'

By Ralph Atkins

LABOUR'S DEFENCE policy is still unilateralist, in spite of its policy review, Mr Kenneth Baker, chairman of the Conservative Party, said yesterday.

In an attempt to exploit opposition differences, Mr Baker said nothing had changed in Labour's defence policy except the packaging.

"Until Mr Neil Kinnock categorically pledges to retain Britain's nuclear deterrent as long as the Soviet Union has nuclear weapons, he remains a unilateralist," he said.

Mr Baker said a truly multilateralist stance would imply agreeing to give up all nuclear weapons only when other countries give up all of theirs.

"If Labour intends negotiating away our nuclear weapons for a comparable number of Soviet nuclear weapons, this will leave Britain with none and the Soviets with 96 per cent of their nuclear weapons," he said.

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Japanese group to take stake in Virgin

By David Thomas

MR RICHARD BRANSON, founder of Virgin, will announce today the purchase by a Japanese company of a minority stake the company, in one of the most significant moves by the records group since it was taken back into private hands almost a year ago.

Mr Branson has been pursuing a number of joint ventures in the Far East and the US since his company became the largest in the UK to switch from quoted to private status last November, when the Virgin group was valued at £248m.

He has been seeking partners who would inject cash into the group and help Virgin, as one of the few surviving independent record labels of any size, to continue to compete in an industry in the middle of a bout of restructuring.

The Japanese investment in Virgin comes two months after Polygram, the music subsidiary of Philips, the Dutch electronics group, bought Island Records, another leading independent label, for about £200m. Polygram is also understood to be in the final stages of negotiating the purchase of A&M Records, one of the two large US independents.

Earlier this year Thorn-EMI, the UK music and electronics group, acquired a 50 per cent stake in Chrysalis Records, the UK independent, and last year MCA of the US bought Motown Records of Detroit.

Virgin's Japanese link-up is a further sign of the growing international expansion of Japanese groups into "software" – material created by musicians, artists and film-makers.

Sony, the leading exponent of this strategy, last month unveiled a \$3.4bn (£2.1bn) acquisition of Columbia Pictures Entertainment, following its \$2bn purchase two years ago of CBS Records.

Recycling 'not an end in itself'

By Maggie Urry

RECYCLING of packaging should not be seen as an end in itself but as part of the effort to save resources, says the Industry Council for Packaging and the Environment (Incpen).

The group, backed by the packaging industry, says that consumers who drive to bottle banks could use more energy than the recycling saves. "Even a short car trip could wipe out the recycling savings," says Incpen.

Mr David Perchard, a packaging consultant, says that recycling glass can save 15 per cent of the energy needed to make glass from raw materials, and a short car trip to the bottle bank can easily eat this up.

A report that analyses the manufacturing and distribution system for beverage containers – from raw materials to final disposal – will be published shortly.

It follows the EC directive on beverage containers, which requires member states to reduce their effect on the environment. Each government is supposed to monitor the measures taken.

Glass recycling levels in the UK are well below rates in other European countries, at about 16 per cent.

Mr Perchard says that if recycling levels are low, it is because consumers cannot easily return bottles, cans and other packaging.

He argues that exhorting consumers to recycle more bottles would just result in more special car journeys, which would waste more energy than was saved. More energy efficient ways of collecting waste needed to be introduced.

Independents' share of news trade may weaken

By Maggie Urry

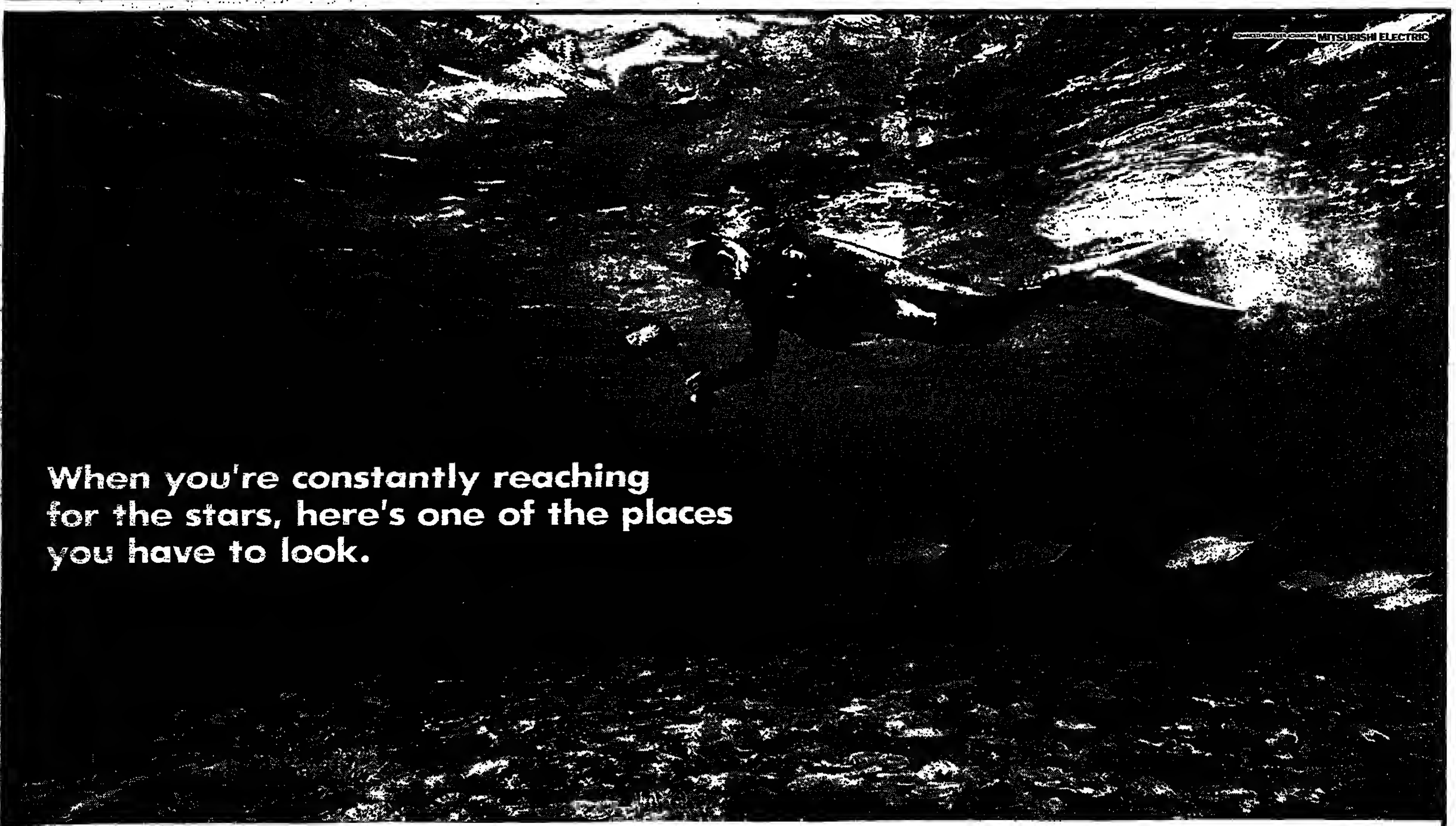
INDEPENDENTS dominate tobacco and newspaper retailing, but their hold on the market is likely to weaken, says a report on the CTN (confectioner, tobacconist and newsagent) sector.

The report says it is the last retail area where independents have an edge over multiple retailers. Five groups – including W H Smith and John Menzies – have under 20 per cent of the market between them.

The independents' success is attributed to the owner/manager's dedication, rising early to organise paper rounds, working seven days a week and knowing most customers.

The report says it will take several years for the multiples seriously to challenge the independents but predicts the five leading players will continue to increase market share at the independent's expense.

Verdict on CTN Retailers, £495, Verdict Research, 112 High Holborn, London WC1V 6JS.




Aplysia neurons


Optical neurochip


Earth station


Teleconferencing system


Communications satellite

Environmental measures 'will push up price of cars'

By John Griffiths

NEW CAR PRICES are forecast to rise by an average of 7.5 per cent a year over the next five years – half as much again as the retail price index – as the cost of political measures to make cars less environmentally damaging takes effect.

But not even the price rises, increased taxes on fuel and business cars and greater road congestion, will dampen rising demand for new cars, predicts Charterhouse, the merchant and investment banking subsidiary of Bank of Scotland.

New car sales will rise from 2.2m last year to 2.6m in 1993, before falling back slightly to 2.53m, according to Mr James Morrell, author of the report and formerly director of the Henley Centre for Forecasting.

The report does forecast a slight "blip" next year, as spending, output and profits growth are hit by high interest rates, dropping new cars sales to 2.19m, but it predicts a strong recovery "following cuts in base rates in 1990 up to the general election and budget concessions in 1991."

It expects the rise in demand to come mainly from private motorists, with business purchases to 1994 at 1.18m, only just above the report's forecast 1.16m for the current year.

Implicit in this part of the forecast is that expected further sharp increases in the assessed personal benefit for tax purposes of company cars will still not be enough to blunt the popularity of the car as a perk. This is to spite of the fact that by 1990/91 the company car operator is likely to be taxed at four times the rate prevailing in the 1987/88 tax year.

"It would be optimistic for the industry to assume the (business car) tax regime has been pushed to the limit," says the report, declaring that private car owners would remain at a significant taxation disadvantage even after the introduction of higher scale charges.

A more likely consequence of higher charges would be a trend towards smaller cars by the business sector.

The report says a further argument in favour of raising the tax level is the need to encourage fuel economy in *order to reduce emissions of* carbon dioxide which contribute to the "greenhouse" effect. It forecasts a rise in the cost of unleaded petrol to reach £2.40 a gallon by 1994.

The conclusion in the report that a flood of low-mileage used cars from the business sector threatens to undermine the used car market through lower re-sale values was echoed yesterday by Mr Tony Grimshaw, *managing director* of Swan National Rentals.

The car rental industry accounts for nearly one in ten of all new cars sold in the UK. Presented with attractive incentives from car makers eager to promote new car sales, some parts of the industry have been replacing cars every three months instead of six.

"The overspill from rental companies coupled with the glut of new and second hand cars forced on to the market as the result of (manufacturers') marketing tactics to boost August sales figures, will only serve to put companies out of *business,"* warned Mr Grimshaw.

Business Forecasts for the Motor Trades to 1994. James Morrell Associates, 1, Paternoster Row, London EC4M 7DH. £90.

FORECAST OF NEW CAR REGISTRATIONS

	Business m	%change	Consumer m	%change	Total m
1989	1.16	4	1.14	4	2.30
1990	1.08	-7	1.11	-3	2.19
1991	1.08	0	1.15	4	2.23
1992	1.14	6	1.26	10	2.40
1993	1.21	6	1.39	10	2.60
1994	1.18	-3	1.35	-2	2.53
1983-88		0.9		8.8	4.4
1989-94		0.3		3.4	1.9

Source: Charterhouse Forecast

Extra £170m for Sizewell queried

THE Central Electricity Generating Board has been asked to explain why it believes a £170m increase in the cost of the Sizewell B nuclear power station in Suffolk will not be repeated in further projects of the same type.

Mr Michael Barnes, QC, the inspector conducting the Hinkley Point C inquiry, has called on the board to give a detailed breakdown of the cost increase.

Disclosure by the board that Sizewell B is likely to cost £1.86bn, an increase of 10 per cent, has led to the adjournment of the Hinkley inquiry until November 7. It had been due to finish last Wednesday after 171 days in session.

Hinkley Point C would be almost an exact replica of the Sizewell B Pressurised Water Reactor (PWR) which is under construction.

The board has suggested that the capital cost increase is mainly associated with building the first to a series of reactors.

It has told Mr Barnes the cost of the Hinkley power station would rise by only three or four per cent.

Mr Barnes wants the board to give full details of its revised figures and to consider the effect of the cost increase on its economic comparison of nuclear power and coal fired generation.

Before revising its Sizewell B cost estimate, the board had acknowledged that after electricity privatisation coal-fired generation is likely to be cheaper.

This is because of the higher rate of return expected to be demanded by investors for bearing the extra financial risks – such as uncertain decommissioning costs – associated with nuclear power.

As well as Hinkley Point C, the board is planning to build further PWRs at Wylfa, Anglesey and Sizewell.

Engineering forecast to show static output

By Nick Garnett

OUTPUT FROM all UK engineering industries, which range from motor vehicles and computers to aerospace and mechanical engineering, will be virtually static next year, according to the Engineering Employers Federation.

Growth in exports will be counterbalanced by a fall in demand from the domestic market, says the federation's autumn trends survey, published today.

The federation expects domestic demand to fall because high interest rates, *rising costs* and little *or no* demand growth in the UK economy will reverse the recent increase in capital investment.

Weaker demand in the UK but continuing strong export performance will result in a reduction next year in the UK's trade deficit in engineered products.

The federation estimates that this deficit will be £10.08bn this year, falling to just under £9bn in 1990.

Mr Ian Thompson, the federation's economist, warned yesterday that the UK's combined engineering industries needed *to see an accelerating improvement* in their competitiveness, based on exchange rates, compared with Britain's competitors.

Without this, the narrowing of the trade deficit would prove temporary and the deficit would start widening again in 1991.

The federation says compared with the 1985-88 averages, UK export prices are about 1 per cent less competitive against West Germany and 6 per cent less competitive against Japan and the US.

Total sales of the combined engineering industries are forecast to be £119bn this year.

Output levels next year are forecast to be higher than in 1989 for aerospace equipment and electrical and instrument engineering. Output below this year's levels is expected for motor vehicles, mechanical *engineering and* metal goods.

Employment in all engineering industries is projected to fall next year.

Buy-outs reach record total this year

By Charles Batchelor

THE VALUE of management buy-out deals will be a record this year. In the first nine months transactions worth £5bn were completed, compared with £4.4bn in the whole of 1988.

Buy-outs, where a team of managers raise outside finance to acquire control of their company, have proved an increasingly popular means of restructuring companies over the past decade.

In spite of this, there is *growing nervousness* in the buy-out market, according to accountants Peat Marwick McLintock. This has been due to disappointing sales in the durable goods part of the retail sector and expectations of high and rising interest rates.

The slowdown in the retail sector forced two earlier buy-*outs – MFI, the furniture* retailer, and Lowndes Queensway, the carpets and furnishings group – to raise extra finance. It also caused problems for the syndication of part of the finance of the Magnet buy-out, another furniture retailer.

The problems caused by high interest rates have been compounded by the buoyant stock market. This has meant that the vendors of companies or divisions suitable for a management *buy-out* have been able to demand high prices, making it difficult to put together finance for the deals.

"Nevertheless, there is still a healthy market for buy-outs of up to £50m," said Mr Chris Beresford, Peats' head of buy-outs. "It is difficult to become too pessimistic about the buy-out market given the still growing numbers of eager investors."

Eighteen buy-outs and buy-ins worth more than £10m each were completed in the third quarter this year for a record quarterly value of £3.5bn. This high figure was largely due to the completion of the £2.4bn buy-out of the *Gateway* supermarkets group.

The increase in the number of buy-outs has been less dramatic. *In the second quarter of* this year, 16 deals (of more than £10m) were done while in the third quarter of 1988 there were 15 buy-outs.

Buy-ins, where an outside team of managers take control of a company, are becoming increasingly popular. A total of 16 buy-ins have been completed so far this year compared with nine for 1988.

Retailers attack credit charges

By David Barchard

LEADING RETAILERS are stepping up a campaign to force banks to change their *charges on* credit card transactions.

The Retail Credit Group, which represents nine large high street retailers, has written to Mr Nicholas Ridley, the Trade and Industry Secretary, urging him to encourage more competition between banks in the plastic cards industry.

The retailers say the "interchange fee" system, under which the bank processing credit card vouchers from a retailer has to pay a 1 per cent fee to the bank which issued the card, is restricting competition between banks.

"Interchange fees set a floor below which retailers cannot negotiate merchant service charges," said Mrs Elizabeth Stanton, director of the Retail Credit Group.

Mrs Stanton says research by the group shows that retailers are paying nearly five times as much for taking credit cards, such as Barclaycard and Access, as they do for handling debit cards, such as Connect or the Lloyds Visa card, even though these are both processed through the Visa system.


Nicholas Ridley: urged to encourage competition

Once a retailer joins the Visa network, he is obliged by its rules to accept all cards carrying the Visa *symbol, even if* the terms on which purchases are made differ substantially. This is known as the "honour all cards" rule.

According to the group, a retailer will typically pay a fee of 42p on a credit card transaction but only 9p on a purchase made with a debit card.

Banks say the two types of card are not strictly comparable as credit cards, to finance purchases which might not otherwise be made, while debit cards replace cheque purchases and *enable* both the bank and the retailer to make savings.

The retailers challenge some of the main conclusions *in July's Monopolies* and Mergers Commission report on the credit card industry by saying that the *MMC should not have* accepted what it describes as spurious arguments from the banks that they could not break down costs on plastic card transactions.

They also call on the Office of Fair Trading to be vigilant in monitoring the "honour all cards" rule.

Call for more inflation-linked pensions

By Eric Short, Pensions Correspondent

OCCUPATIONAL pension schemes in the private sector could do more to guarantee increases to pensioners in line with or near to inflation, said Mr John Martin, senior partner in R. Watson & Sons, one of Britain's largest firms of consulting actuaries, and deputy chairman of the Occupational Pensions Board.

He told the annual pension conference of the Confederation of British Industry yesterday that the present situation on pension increases was *"quite unsatisfactory."*

The security and comfort needed by pensioners was not provided by most company pension schemes, where guarantees *of* pension increases were low and pensioners had to rely on discretionary payments to offset inflation.

Mr Martin said that the *sound finances of company* pension schemes meant they could guarantee virtually index-linked pensions.

Skills of older staff 'ignored'

By Michael Skapinker

THE WAY some companies ignore the skills of older staff borders on negligence, the British *Institute of Management* says in a report to be published later this month.

The report says that more than half Britain's managers are over 40. While companies give attention to the difficulty of recruiting younger staff and graduates, they are ignoring the skills they already have, the report says.

"A change of attitude by organisations and individuals is badly needed," says Mr Peter *Benton, director general of the* BIM.

"Some companies are bordering on negligence in their treatment and use of the skills of older staff. They compete for younger staff, without relevant knowledge, competence or experience, while little thought may be given to developing older and more experienced people to meet new conditions.

"Older staff are often pushed into early retirement to let the *youngsters scale ladders of cor*porate advancement. Yet in the flexible, adaptable organisation such ladders may be meaningless. It is competence that counts."

Mr Colin Coulson-Thomas, the author of the report, says that few employers make any effort to recruit older staff. When managers reach a certain age, employers stop investing in them.

UK NEWS

Imperial College first to appoint MD

By David Thomas, Education Correspondent

IMPERIAL COLLEGE, London, one of Britain's leading centres of scientific and technological research, has become the first leading UK university institution to appoint a managing director.

Mr Angus Fraser, a former executive director of Chloride, the battery group, will be the first person to take the post when he starts next month.

Professor Eric Ash, Imperial's rector, said the appointment reflected pressure on the universities to raise cash from sources other than the Government: "In the next few years we will have to concentrate hard on those of our activities which generate income."

Mr Fraser's industrial background made him well-placed to spearhead that effort. "I expect he will be spending a large amount of his time developing the entrepreneurial side of the college," said Prof Ash.

Imperial generates about £5m of its annual income of £70m from business contracts.

Mr Fraser, aged 44, joined Chloride's board in 1984 as director of European operations. He resigned last year to pursue interests in a number of small, technology-based companies, but remains a non-executive director.

Mr Fraser is likely to maintain these business interests after joining Imperial.

His salary at Imperial has not been disclosed, but is likely to be above the general run of academic salaries.

Mr Fraser will take over the responsibilities of Mr John Smith, Imperial's secretary and most senior non-academic official, who is retiring.

THE BAR CONFERENCE

Donaldson urges support for white paper

By Robert Rice, Legal Correspondent

LORD DONALDSON, the Master of the Rolls, has appealed to barristers and solicitors to abandon the hustings and throw their weight behind achieving the statutory objectives for reform of the legal profession set out in the July white paper.

The Master of the Rolls, at the forefront of fierce judicial criticism of the green papers on legal reform, told the Bar's annual conference in London that the white paper had now found "the right way forward."

Instead of concentrating on answering criticisms which have been made of the profession, the white paper focused on providing machinery for seeking and finding those answers, he said.

The spectre of intervention by a competition authority, applying tests wholly inappropriate to a profession and above all to one concerned with the administration of justice, had been lifted.

The new system was complex, but contained sensitive checks and balances. All concerned were "bound together by a common objective to seek to achieve the statutory objectives". He was confident that the machinery would work.

On the issue of rights to appear as advocates in the higher courts, Lord Donaldson indicated that any extension of existing rights of audience for solicitors was by no means automatic.

It remained to be worked out for each category of case through discussion between the profession, the senior judiciary, the Lord Chancellor and his Advisory Committee.

However, the white paper was right to make a distinction between advocacy and preparation of a case for trial.

"A lawyer who sought to earn his living by undertaking both the preparation and the presentation of his client's case might run the risk of becoming a jack of both trades and master of neither," he warned.

This did not mean that, for example, in civil cases in the High Court, the advocates had to be barristers rather than solicitors. But it might be that the interests of justice required such high standards of competence, both in preparation and presentation, that those who did not concentrate on one or other activity might be unable to achieve them.

In the light of the Bar's long tradition of highly skilled and specialist service, he could not believe its future prosperity was in doubt.

Lord Donaldson called for the creation of a body of lay magistrates to deal with civil disputes. Similar in size to the existing lay magistracy, these volunteer civil justices would meet the public's growing demand for a quick and cheap system for small claims.

Lord Donaldson: at forefront of fierce criticism

Emergency order 'open to abuse'

THE USE of emergency High Court orders to prevent defendant companies from destroying or spiriting away documents which may be relevant to a civil action is inadequately controlled by the courts and wide open to abuse, according to a leading commercial barrister.

Mr Hugh Laddie, QC, told the conference that the Anton Piller procedure, so called after the case in which such an order was first used, had serious defects.

The way in which such orders were obtained (usually ex parte and in secret), executed and finally disposed of was weighted so heavily in favour of the plaintiff that it was inevitable that they would be abused, he said.

There was little doubt that the frequency with which they were now sought and granted reflected their effectiveness.

"If successful, they administer a true knock-out blow to the defendant. Particularly when used in conjunction with Mareva injunctions (orders preventing defendants from removing their assets outside the jurisdiction of the court) this form of pre-emptive strike may well close down a defendant's business," he said.

Although the procedure puts an obligation on the judge to analyse the evidence and consider what the defences to such an application might be, the last 15 years have shown that serious lacunae in the plaintiff's case have occasionally slipped past the courts.

If the order is executed and is successful, so long as it exists, it represents a judicial pronouncement of prima facie dishonesty against the defendant company, he said.

The obvious course for the defendant is to apply to have the order set aside as soon as possible. Unfortunately the courts have turned their face against this by insisting that the application to discharge may be deferred to the trial.

If defendants cannot apply to have the order discharged they have little option but to shoulder the costs of the Anton Piller and to continue in business with the stigma attached to them that they were subject to such an order they did not even try to have set aside.

● Delay in the Commercial Court was a growing threat to its continued success as a forum for dealing with international commercial disputes, Mr Richard Williams, a City solicitor, told the conference.

The success or failure of the Commercial Court depended on its attractiveness to the international business community. The bulk of litigants using the Commercial Court are foreign and a raison d'etre of the court is to earn foreign exchange. The court had to respond to customers' demands or it would quickly be out of the market place, he said.

Ignorance of the system 'puts off foreign lawyers'

THE REASON foreign lawyers make little use of the English Bar is that few of them know what it is, a leading US attorney told the conference.

Ignorance of the Bar had two main sources, according to Mr Eric Bettelheim, resident London partner of US lawyers Rogers and Wells.

The first was the traditional refusal of the Bar to market its services, particularly abroad. The second was the largely successful efforts of the solicitors' profession to limit access to and information about the Bar.

Foreign lawyers easily came to see the Bar as "a peculiar English eccentricity of little relevance to international commercial life."

Too many members of the Bar demonstrated a self image and patterns of behaviour which positively discouraged approaches to them. Barristers had continued to communicate – both consciously and unconsciously – contempt for the concerns of lay clients and the problems faced by other lawyers and other professionals, including foreign lawyers.

"People who dress up in old fashioned costumes, live their professional life in cloisters and refuse to talk about money except through third parties, are easily seen as, if not slightly silly at the end of the twentieth century, certainly not on the same wavelength as the rest of mankind," Mr Bettelheim said.

In most other countries and overwhelmingly in the US, law was no longer considered to be a thing found in books.

The deliberately quasi-academic approach to the law and legal problem solving which the Bar adopted added a sense of "other worldliness" which was not helpful.

APPOINTMENTS

New chief for Simon Engineering

■ Mr Brian Kemp has become chief executive of SIMON ENGINEERING and Mr Alan Jarvis group finance director. They succeed Mr Tim Leader and Mr George Richardson respectively, who have both retired. Mr Kemp was appointed deputy chief executive in January 1988 and Mr Jarvis was group financial controller.

■ On November 1 Mr Scott Davidson is appointed managing director of ICI FIBRES. He succeeds Mr Alan Pedder who becomes principal executive officer of ICI Polyurethanes, based in Brussels. A member of the ICI Paints international business team and currently chief executive ICI Paints, Asia Pacific, Mr Davidson joined the ICI Paints board in April 1987.

■ PARKFIELD Group has made Mr Derek Waelend managing director of its wheels division. He was formerly managing director of Lotus Cars.

■ Mr Andrew Wallis is joining AAH HOLDINGS as group finance director on November 1. He was group finance director of Aurora.

■ Mr John McVittie has joined the board of JOHN CHARCOL HOLDINGS with responsibility for the commercial mortgage division. He was previously general manager of First Interstate's London office.

■ LONDIS has appointed Mr Terry Bedford as marketing director. He joins from Amalgamated Foods' retail division – Alldays, where he was retail director.

Services at Canary Wharf

J M JONES ENVIRONMENTAL SERVICES, a division of the J M Jones Construction Group, has secured the contract for the first phase of the mechanical services installation for Olympia & York's £1bn Canary Wharf development.

The contract, worth £4.5m, will form the cornerstone to Canary Wharf's huge and complex infrastructure. It comprises the manufacture and installation of exceptionally large quantities of smoke extraction and ventilation ductwork, drainage pipework, heating and chilled water distribution networks and major items of plant. The contract will run from September 1989 to late 1991 and require a workforce of up to 60.

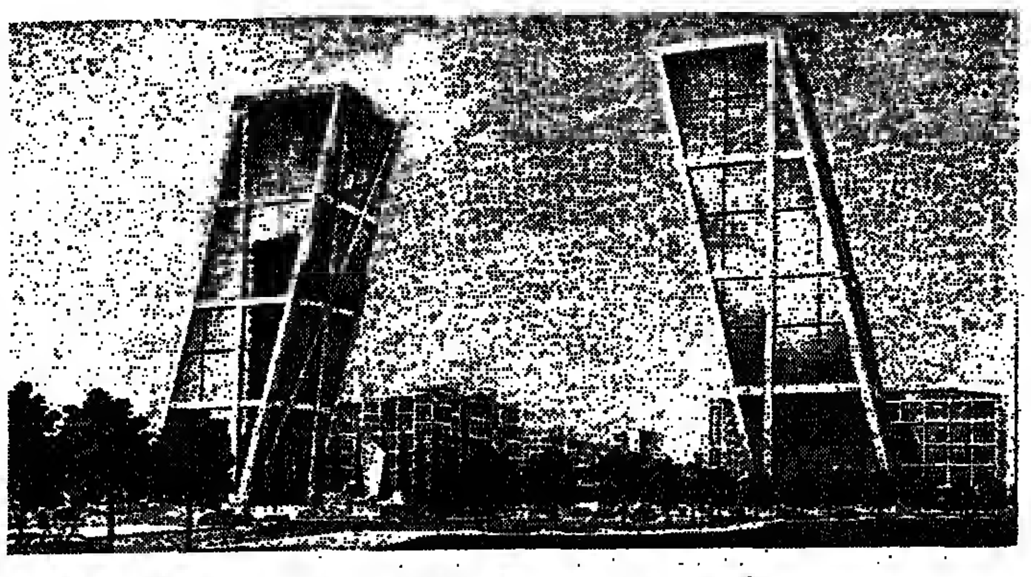
Slough hotel

Copthorne Hotels and ZAKHEM MANAGEMENT CONTRACTING have signed a contract to build a 219 room four star hotel in Slough. The £12.4m contract will include comprehensive conference facilities, swimming pool and high-quality leisure facilities.

Parking should not pose a problem; two out of nine storeys will be devoted to space for 300 cars. Completion is scheduled for the end of November 1990.

CONSTRUCTION CONTRACTS

£100m Madrid offices project



BOVIS INTERNATIONAL, a P&O company, has won one of Spain's most prestigious construction projects - a £100m office and residential development in the centre of Madrid for Prima Inmobiliaria S.A.

Designed by John Burgee Architects of New York for Spain's largest property developer Prima Inmobiliaria, the office and residential development will occupy 30,000 sq metres on the Castellana Boulevard at the Plaza Castilla.

Unique features of the development are two 26-storey towers which lean 15 degrees off the vertical towards each other across a landscaped pedestrian area.

These two steel framed towers will together provide 60,000 sq metres of office space. A total of 600 luxury apartments are also to be built in the three surrounding 12-storey buildings. Parking for some 1,600 cars will be provided beneath the development at three lower levels.

Major excavation for the complex infrastructure associated with the project will start before the end of the year. These works include the construction of a six lane underpass for the main boulevard which has to be co-ordinated around three metro stops for Madrid's underground. These three lines will continue to run a full service throughout the building programme. The 31-month project will be completed by Summer 1992.

Car manufacturing plant extension

SIR ROBERT McALPINE & SONS has been awarded a design and management contract, worth over £10m, by Nissan Motor Manufacturing (UK) for the further expansion of its car manufacturing plant at Sunderland, Tyne and Wear.

This project covers the construction of an extension to the press shop and panel handling area. Being built on a 30,000 sq metres site adjacent to and linking with the press shop, the single-storey building will provide additional press shop facilities measuring 165 metres x 69 metres and a panel handling and storage area of 54 metres x 54 metres.

Construction, on reinforced pad foundations, will be of structural steel frame, clad with composite steel panels and roofing to match the existing buildings. Within the press shop, excavation down to a depth of 10 metres into rock will be necessary for the construction of the machine pits, the underground sub-station which will serve the major press machinery and the tunnels for scrap conveyors and the electrical services. The work is due for completion in March 1991.

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Gartmore European Inv. Tst., Gartmore House, 16-18 Monument Street, E.C., 12.30
Merrydown Wine, Horam Village Hall, Horam, Heathfield, East Sussex, 12.00
Rexmore, Regent House, Rexmore Way, Liverpool, 12.00
Stirling, Stakehill Lane, Bentley Avenue, Middleton, Manchester, 12.00
BOARD MEETINGS-
Finals:
Armour Tst.
European Leisure
Halstead (James)
Ossory Estates
WCRS
Interims:
American Distributor
Berry Birch & Noble
Bilton Percy
Brewmaker
Gates-
Headland Group
Kleinwort Benson Gilt Fd.
Lamont
North British Canadian
Tootal Group
Topdanmark
Triplevest
Turriff Corp.
Whatts, Blake, Bearn
DIVIDEND AND INTEREST PAYMENTS-
AAH Hldgs. 4.2% Prf. 2.1p
ABS Kent 6% Deb. 88/93 3pc.
Do. 7¾% Deb. 88/93 3.875pc.
Do. 8% Uns. Ln. 88/93 4pc.
AIM Group 6.6p
Acsis Group 0.3p
Allied Textile Companies 4.1p
Anglo Group 9½% Cnv. Bds. 1999 4.75pc.
Associated British Eng. 0.08p
Avesco (Reg.) 1.125p
Do. (Br.) 1.125p
BBB Design Group 1.75p
BOC Group 12¼% Uns. Ln. 2012/17 6.125pc.
BWD Securities 1p
Baker Harris Saunders Group 4p
Baxter Intl. Inc. 14cts.
Bensons Crisps 0.6p
Birmingham Mint Group 5p
Do. 6% Prf. 2.1p
Black Arrow Group 2.75p
Bridon 7% Prf. 1.225p
Bristol & West Bldg. Soc. 10⅞% Sub. Bds. 2000 5.4375pc.
Business Technology Group 1.3p
CCB Group 0.2p
Cable & Wireless 5.18p
Do. 7% Cnv. Uns. Ln. 2005 3.5pc.
Caltyns 6½% 1st Prf. 2.275p
Do. 10% Prf. 5p
Capital & Counties 5.25p
Carclo Eng. Group 10½% Red. Prf. 5.25p
Central Motor Auctions 1p
Centreway Tst. 11% Prf. 5.5p
Colefax & Fowler Group 2.2p
Compco Hldgs. 10.8p
Continental & Indl. Tst. 20p
Cowan, de Groot 1.25p
Crest Nicholson 3p
Do. 5½% Cnv. Red. Prf. 2.75p
Dai-Ichi Kangyo Bank 3⅞% Cnv. Bds. 2004 1.9375pc.
Dalepak Foods 2.1p
Dares Estates 0.5p
Davenport Knitwear 8.05p
Dewhurst 0.7p
Do. A NV 0.7p
Dixons Group 3.3p
Dowty Group 4.8p
Drummond Group 2.7p
Dunlop Group 0.62p
Durham (D. G.) Group 1p
Dyson (J. & J.) 3p
Do. A NV 3p
Eastbourne Water Do. 8⅜% Red. Prf. 1995 4.1875p
Empire Stores (Bradford) 3.575p
Erskine House Group Cnv. Red. Prf. 3.625p
File Indexer 0.75p
First Scottish American Tst. 7p
Firth (G. M.) Hldgs. 2.75p
Fitch Lovell 8.25p
Fleming Hlg Inc. Inv. Tst. 1.3p
Fleming Mercantile Inv. Tst. 1.8p
Fletcher King 5.5p
Foreign & Col. Inv. Tst. 0.8p
Gartmore American Securities 0.5p
Gaskell 2.8p
General Cons. Inv. Tst. 4p
GEC 5.85p
Gibbs Mew 3.25p
Granada Group 4.4p
Grand Metropolitan 6.75p
Greycoat 2.5p
Hambros 7½% Cnv. Red. Prf. 2.59816p
Hamilton Oil Corp. A Prf. 49.75cts.
Hampson Inds. 1.75p
Do. Cnv. Red. Prf. 91/2003 3.25p
Heritage 2.58p
Hewetson 2.6p
Heywood Williams Group 4.5p
Do. Cnv. Red. Prf. 3.375p
Hollas Group 1.6p
Hongkong & Shanghai Banking Corp. H$0.14
Howden Group 3.18p
Imperial Chemical Inds. 21p
Ivory Merchant Developers 5⅛% Cnv. Red. Prf. 2.5625p
Inch Kenneth Kajang Rubber 5p
Jacques Vert 2p
Jourdan (Thomas) 1.5p
Kalon Group 0.4p
Laigh Interests 4.2p
Leslie Wise Group 1.5p
Lister & Co. 3p
London Forfaiting Do. 2.625p
London Intl. Group 4.9p
Lonrho 5p
Low & Bonar 2.4p
Low (Wm.) & Do. 6¾% Cnv. Red. Prf. 3.375p
ML Hldgs. 2.13p
Marling Inds. 2.8p
Marshalls 6.5p
Do. Cnv. Red. Prf. 3.25p
Menvier-Swain Group 3.6p
Menzies (John) 9% Prf. 4.5p
Metropolitan Tst. 5% Prf. 1.75p
Do. 4½% Prf. 1.575p
Mid-Sussex Water Co. 7% Red. Prf. 88/90 3.5p
Do. 8¼% Red. Prf. 1995 4.125p
Mitsubishi Bank 3½% Cnv. Bds. 2004 $180.69
Mountleigh Group 3.5p
NMC Group 2.3p
New South Wales Treasury Corp. 12.1% Gtd. Exch. Bds. 1995 6.05pc.
Nobo Group 4.4p
Norton Opax 1.75
Oxford Instruments Group 2.2p
P & P 1.1p
P & O 5% Pfd. 1.75p
Penny & Giles Intl. 2.45p
Pepe Group 4p
Property Security Inv. Tst. 2.25p
Relyon Group 2.1p
Rentaminster 1p
Rickmansworth Water Co. 2.8% (Fmly. 4%) Cons. Prf. 1.4p
Do. 4% Cons. Deb. 2pc.
Do. 7½% Red. Deb. 91/05 3.75pc.
Robinson (Thomas) Group 6p
SMAC Group 1p
STC 3.75p
St Andrew Tst. 2.15p
Scandinavian Bank Group 3p
Scantronic Hldgs. 5¾% Cnv. Red. Prf. 2.875p
Sears, Robuck & Co. 50cts.
Siebe 6p
Simms Food Group 6.2p
Smith (David S.) Hldgs. 6p
Sphere Inv. Tst. 3p
Stavert Zigomala 15.15p
Stoddard Sekers Intl. 1.95p
Stylo 7p
Symonds Eng. 7½% Prf. 2.625p
TSB Group 2.85p
Takare 1p
Tamaris 8½% Cnv. Red. Prf. 2003 4.25p
Taylor Woodrow 9½% 1st Mtg. Deb. 2014 3.887pc.
Textured Jersey 4.5p
Tinsley (Eliza) Group 3p
Trafalgar House 10⅜% Bds. 2014 £738.28
Union Square 0.8p
Unitech 6.625p
United Inds. 1.8p
United Scientific Hldgs. 5½% Cnv. NV Red. Prf. 2.75p
Volex Group 10p
Wagon Indl. Hldgs. 8.75p
Waverley Cameron 0.7p
Westerly 5.5p
Wickes 1p
Wood (S. W.) Group 3p
Wyko Group 2p
Zetters Group 4.6p

TOMORROW
COMPANY MEETINGS-
Peel Hldgs., The St. James's Club, St. James's House, Charlotte Street, Manchester, 12.00
BOARD MEETINGS-
Finals:
EFM Dragon Tst.
HTV
Melville
Raine Inds.
Interims:
Barry Wehmiller
Brooks Service
Dowflex
Hey (Norman)
Holt (Joseph)
Lowe Howard Spink & Bell
MIL Research
Sheffield Insulations
Ward Group
DIVIDEND AND INTEREST PAYMENTS-
Abbey Ir14.5p
ASDA Group 2.95p
Blagden Inds. 4.2p
Chestergate Group 2.8p
Ellis & Everard 4.3p
Equity & General 1p
Eurotherm Intl. 1.75p
FKB Group 5p
Fairway (London) 1p
Hazlewood Foods 2.5p
Hickling Pentecost 1.5p
Kleinwort O'seas Inv. Tst. 1.1p
London Merchant Securities 10% 1st Mtg. Deb. 2018 5pc.
Merrydown Wine 5.5p
Molynx Hldgs. 1p
Owners Abroad Group 0.7p
Peel Hldgs. 7p
Scottish, English & European Textiles 3.7p
Shell Trans. & Trading 5½% 1st Prf. 1.925p
Taylor Woodrow 1.75
Williams Hldgs. 4.5p

WEDNESDAY OCTOBER 4
COMPANY MEETINGS-
Brasway, All Saints Road, Wednesbury, West Midlands, 2.30
Fleming Technology Inv. Tst., 25 Copthall Avenue, E.C., 12.00
Laurie Group, 1 Hobart Place, S.W., 11.00
Wood (John D.), 28 Curzon Street, W., 12.00
BOARD MEETINGS-
Finals:
Cramphorn
Lawtex
Maunders (John)
Interims:
Beckman (A.)
Early's of Witney
Fortnum & Mason
Grampian
Harrisons & Crosfield
Hewden Stuart
Higgs & Hill
Ketson
Martin (Albert)
Sears
Wensum
DIVIDEND AND INTEREST PAYMENTS-
Black (A. & C.) 4.25p
British Assets Tst. 0.85p
British Gas 6.25p
Burtonwood Brewery 7% Prf. 2.45p
Crosby (James) Group 2.5p
English & O'seas Properties 2p
Handley-Walker Group 3p
Rexmore 1.55p
Sainsbury (J.) Finance BV 9⅞% Gtd. Nts. 1991 4.6875pc.
Syltone 9.5p

THURSDAY OCTOBER 5
COMPANY MEETINGS-
Ewart, 17 Bedford Street, Belfast, 12.00
Havelock Europa, Royal Scottish Automobile Club, 11 Blythswood Square, Glasgow, 12.00
Resort Hotels, Eaton Garden Restaurant, Eaton Gardens, Hove, Sussex, 11.00
Heath (Samuel) & Sons, Leopold Street, Birmingham, 10.00
BOARD MEETINGS-
Finals:
Druck
Galliford
Photo-Me Intl.
Strong & Fisher
TSW-Television South West
Interims:
Assoc. Fisheries
Camellia Invs.
Ebam
Finlay (James)
Guinness
Lep
Next
Ulster Television
DIVIDEND AND INTEREST PAYMENTS-
Annuities 2½% 1.25pc.
Do. 2¾% 1.375pc.
Associated British Consultants 3.5p
Bradford Property Tst. 10½% Prf. 5.25p
Do. 7% Uns. Ln. 92/97 3.5p
CRH 7% A Prf. 2.52p
Cantex Corp. 10cts.
Consolidated 2½% 1.25pc.
Edinburgh Inv. Tst. 5¾% Deb. 1998 2.875pc.
Evans Halshaw Hldgs. 3.6p
Fleming Technology Inv. Tst. 1.7p
Funding 5¾% Ln. 87/91 2.875pc.
Heath (Samuel) & Sons 3.3p
Israel Electric Corp. 8.09p
Jarvis (J.) Hldgs. 1.5p
Johnson Group Cleaners 7p
Lawrie Group 45p
Lloyds Bank 6.4p
M & G Australasian & General Fd. 1p
McMullen & Sons 10½% Prf. 5.25p
Do. 6½% Prf. 3.25p
Metropolitan Water Grand Junction WW 3% Deb. 1.5pc.
Do. West Middlesex WW 3% Deb. 1.5pc.
Mid Wynd Int. Inv. Tst. 2.65p
Security Pacific Corp. Sub. Fltg. Rate Nts. 1992 $244.38
Tiphook 4.85p
Do. Cnv. Uns. Ln. 1900 1.62pc.
Do. Cnv. Uns. Ln. (Ptly. Pd.) 1.62pc.
Tomkins 4.75p
Treasury 3% 1.5pc.
Do. 8% Ln. 2002/06 4pc.
Waste Management 15cts.
Watney, Mann & Truman Hldgs. 3⅞% Irrd. Deb. 1.675pc.
Do. 4¼% Irrd. Deb. 2.125pc.
Wigan Corp. 3% Red. 1.5pc.
Wood (John D.) & Do. 6.5p

FRIDAY OCTOBER 6
COMPANY MEETINGS-
Mosaic Invs., Drapers Gardens 12 Throgmorton Avenue, E.C., 11.00
Swanyard Studios, Kempson House, Camomile Street, E.C., 10.30
Stroud (Jones), The Donington Thistle Hotel, East Midlands Airports, Castle Donington, Derby, 12.00
BOARD MEETINGS-
Interims:
Arolectric
Eurotunnel SA
Scottish Television
Tullow Oil
DIVIDEND AND INTEREST PAYMENTS-
Admiral Computing Group 1.1p
Bampton Property Group 7¾% Uns. Ln. 91/96 3.875pc.
Banks (Sidney C.) 4.575p
Barbour Index 7p
Bellway 9½% Red. Prf. 2014 4.6589p
Berisford Intl. 1.8p
Bespak 3.75p
Bletchley Motor Group 3.75p
Bradford & Bingley Bldg. Soc. Fltg. Rate Nts. 1998 £356.03
Bralmo (T. F. & J. H.) 2p
Do. A NV 2p
Britannic Assurance 6.5p
British Bldg. & Eng. Appliances 2p
Bullers 0.5p
CRH 1.75p
Cattles Hldgs. 1.375p
Clark (Matthew) & Sons 7.5p
Colman (E. Alec) Invs. 9% 1st Mtg. Deb. 87/92 4.5pc.
Davies & Metcalfe 0.72p
Do. A NV 0.72p
English & Caledonian Inv. 1.5p
Francis Inds. 9% Uns. Ln. 94/99 4.5pc.
Freeman Group 2.75p
Graig Shipping 3.5p
Do. A NV 3.5p
Greenhal Whitley 7% Irrd. Uns. Ln. 3.5pc.
Do. 8⅛% Irrd. Uns. Ln. 4.0625pc.
Havelock Europa 1p
Hey & Croft Group 1p
Jones, Stroud Hldgs. 5p
Kalt Energy 6% Cnv. Red. Prf. 3p
Kuala Lumpur Kepong Berhad 5cts.
Liberty Life Association of Africa 285cts.
Do. Pfd. 300cts.
Lovell (G. F.) 2p
Mallett 1.6p
Metal Bulletin 2.1p
Mosaic Invs. 3.5p
Mount Charlotte Invs. 0.46p
NSM 3p
Paramba 0.5p
Premark Intl. 21cts.
River & Mercantile Tst. 1.5p
Saatchi & Saatchi 6.3% Cnv. Red. Prf. 3.15p
Schlumberger 30cts.
Scottish National Tst. 1.8p
Standard Chartered 12.5p
TI Group 5.75p
Terry (E. W.) 15cts.
Taylor Woodrow 11½% Nts. 1993 5.75pc.
THORN EMI 19.5p
Tibbett & Britten Group 2.4p
Tranwood 1p
Trencherwood 1.5p
Tronoh Mines Malaysia Berhad 20sen
USDC Inv. Tst. 1p
Victoria Carpet Hldgs. 4.25p
Whitbread & Do. 9% Uns. Ln. 97/2001 4.5pc.
Yale & Valor 5.3p

Trade fairs and exhibitions: UK

October 3-5
Transport and Distribution Services Show and Conference (01-868 4466)
Wembley Exhibition and Conference Centre

October 4-6
Desktop Publishing Exhibition (0625 879970)
London Arena

October 10-12
Innovations for profit – TECHMART (01-834 1717)
NEC, Birmingham

October 10-12
Fashion Fabrex (01-885 1200)
Olympia

October 10-12
Insurance Industry Exhibition and Conference - INSUREX (01-446 8211)
Barbican, London

October 14-17
British Designer Show (01-385 1200)
Olympia

October 18-19
Hotel, Catering and Leisure Industry Technology Exhibition - HOTECH (01-978 2050)
Kensington Exhibition Centre

October 19-20
Law Society National Conference and Exhibition (0423 530588)
Harrogate Exhibition Centre

October 19-29
London Motor Fair (01-385 1200)

Overseas exhibitions

Current
International Robotics, CAD/CAM, Automation Engineering Exhibition - PRODUCTIQUE (01-225 5566) (until October 26)
Paris

October 3-7
International Technical Fair - Packaging and Material Handling - PACTEC (01-486 1951)
Helsinki

October 7-11
International Hotel, Restaurant, Catering & Foodstuff Industry Trade Fair (01-977 3474)
Vienna

October 9-14
International Fair for Instrumentation and Automation - INTERKAMA (01-794 0166)
Dusseldorf

October 10-14
International Anti-Pollution, Environmental and Safety Technology Exhibition - IFEST (01-639 7265)
Stockholm

Business and management conferences

Current
OTR Group: The impact of information technology on managing organisational change (01-402 3574) (until October 3))
Windsor

October 2-3
Financial Times Conferences: Retail financial services (01-925 2323)
Hotel Inter-Continental, London

October 2
Ambrosetti Group and The Economist: Making perestroika work – the challenges to East and West (434 9091)
Queen Elizabeth II Conference Centre

October 3
Overseas Development Institute: Economic prospects for the Third World (01-487 7413)
Queen Elizabeth II Conference Centre

October 9-10
Financial Times Conferences: Europe and the Nordic countries (01-925 2323)

October 11-14
Strategic Management Society: Strategies for innovation (US 317 494 4386)
San Francisco

October 11-12
Financial Times Conferences: World mobile communications in the 90s (01-925 2323)
Hotel Inter-Continental, London

October 12-13
Club de Bruxelles: The future of transport in Europe (Brussels 771 98 90)
Brussels

October 16-17
Financial Times Conferences: Re-regulating Europe's financial sector (01-925 2323)
Hotel Inter-Continental, London

October 24-25
International Business Communications: Third annual conference on the management and marketing of unit trusts (637 4383)

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

NOTICE TO THE HOLDERS OF WARRANTS TO SUBSCRIBE FOR SHARES OF COMMON STOCK OF

FUJI PHOTO FILM CO., LTD.

issued in conjunction with
U.S. $400,000,000
8¾ per cent. Bonds Due 1992
(the "Warrants")

Pursuant to Clause 3 (i) of the Instrument dated 27th June, 1988 under which the Warrants were issued, notice is hereby given as follows:

1. *On 18th August, 1989 the Board of* Directors of the Company resolved to make a free distribution of shares of its Common Stock (the "Shares") to shareholders of record at 8:00 p.m., Tokyo time, on October 20, 1989. The free distribution will become effective on December 4, 1989, but the dividends for these new Shares will accrue from October 21, 1989, Tokyo time.

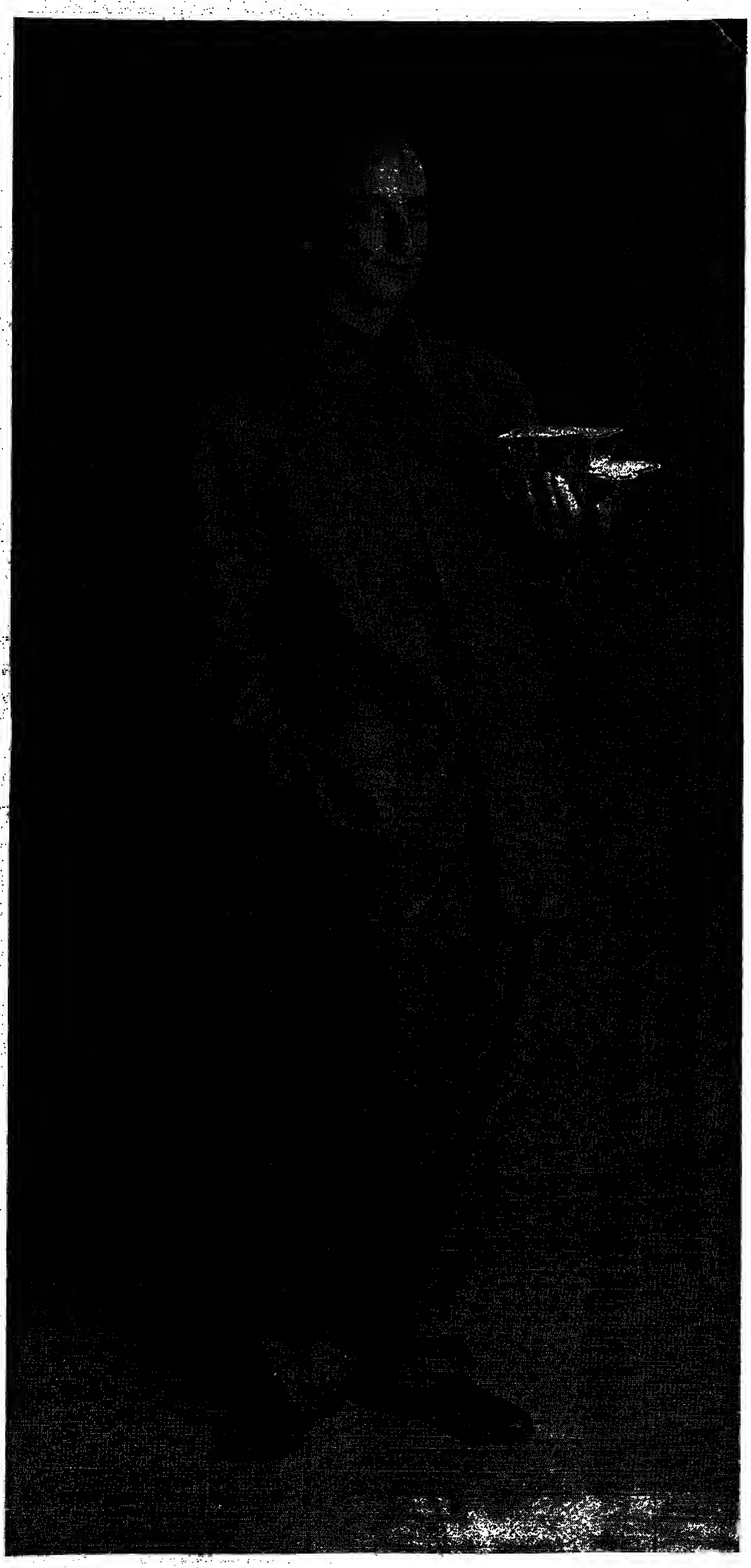
2. As a result of the above transaction, the current subscription price for the Warrants shall be adjusted effective as from October 21, 1989, Tokyo time. The subscription price in effect for the Warrants prior to such adjustment is Yen 3,903.0 per Share and the adjusted subscription price will be Yen 3,457.3 per Share.

FUJI PHOTO FILM CO., LTD.
By: The Bank of Tokyo Trust Company
as Disbursement Agent

Dated: October 2, 1989

Max Lubin

Our Director of Swaps on the Capital Markets Desk.



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Shane Longman is one of the most innovative merchant banks in the new look City, employing over 700 people.

But none of them is as out-to-lunch as Max Lubin.

Max is Director of Swaps, and he spends most of his time at a prime position on the Trading Floor. He has tailored a refinancing operation to embrace Third World debt.

And if you don't understand what that means, don't worry. Nobody else at the bank understands what Max is up to either.

He speaks 9 European languages.
He speaks 11 Chinese dialects.
Which makes it a lot easier to order the take away on Sunday night.

But every merchant bank needs its crazy intellectual – even the bank in Thames Television's new drama serial, "Capital City."

So look out for an off-the-wall, pigtail-wearing banker called Max.

And don't worry that somebody who can speak so many languages is going to be a show-off. Max would never dream of being a show-off – would you, Max?

"Capital City" is on at 9 o'clock on Tuesday nights on ITV. Max is one of the most unpredictable elements in it – but there will be plenty of other surprises too...

THAMES TELEVISION XXI

Shane Longman

A merchant bank worth watching.

MANAGEMENT

Getting Europe on to the same wavelength

Dieter Popinga, Ford's radio marketing manager, tells **Michael Skapinker** how he tries to establish common ground

British Euro-enthusiasts who despair when their compatriots refer to a trip across the Channel as "going to Europe" might he comforted to hear that some continentals use the same expression when travelling to the UK.

Dieter Popinga, a manager at Ford, says that West German employees say they are "going to Europe" whenever they visit the motor company's European headquarters in the UK.

Popinga, who is also German, has worked "in Europe" since 1977, apart from one year which hs spent beck in Cologne. At present, he works in a new hlue glass huilding at Ford Europe's research and engineering centre near Basildon, Essex. He is in charge of sales and marketing at Ford Europe's slectronics operations.

Popinga, 48, is one of a growing band of Ford managers who are prepared to work anywhere in the world. There was a time, be says, wben you could do well in one of Ford's netional companies without moving out of your own country.

"That's not the case any more," he says. "There's been a definite change in the past few years. People used to be convinced that they could make a career in their own country. That's true only up to a certain level. Then they see that they are stuck."

Louis Lataif, the president of Ford Europe, wrote in the June issue of the European Business Journal that the company wanted to develop a pool of mobile, international managers. "The intsgration of operations and free flow of staff worldwide is the ultimate goal; Ford, like other car manufacturers, now sees itself operating in a global market and, as a result, has set out to build an international management team which reflects this."

Lataif admitted that in the past most of Ford's overseas divisions had been headed by Americans. Today, however, five of Ford's European companies were headed by nationals of other European countries. The remaining 10 European companies were headed by local executives, nine of whom had worked in other countries.

Popinga says that the more mohils managers form their own community within Ford. "You find yourself meeting them at seminars and meetings. Sometimes on the other side of the Atlantic, sometimes here. There's a lot of socialising between us."

The managers he mixes with come from many different countries, but it was Ford's Americen roots which attracted Popinga to the company 24 years ago. When he was e law student in Hamburg, he had a part-time job helping to allocate scholarships to German students who wanted to *study abroad. He also looked* after the foreign students who came to Hamburg. He found them all interesting, but it was the Americans who particularly appealed to him.

INSIDE EDGE

He joined Ford in Cologne as a bnsiness edministretion apprentice. All sorts of jobs in Germany have epprenticeships, he says, including secre*tarial jobs. He worked his way* around the company from purchasing to sales to finance and then went on e Ford scholarship to study in California for six months.

He worked for Ford in the US in the late-1960s and has held a variety of jobs in Germany and England. He has been in his current position for 5½ years, which is a long time by Ford standards.

His job consists primarily of persuading Ford's European companies to fit radios in the cars they sell and, secondly, to fit radios manufactured by Ford rather than by anyone else. There is a lot of electronic gadgetry in cars today, he says, and it interferes with the reception of radios that are badly fitted. *When customers'* radios don't work properly, he says, they tend to blame the manufacturer of the car rather than the maker of the radio. Ford would far rather its factories install its own radios.

When he talks about his internal marketing work to the Ford companies in Europe, it becomes clear that, global mar*ket or not, national* preferences are hard to change. It is only in the UK, he says, that almost all Ford models come already fitted with a radio. In Germany, he says, radios are *regarded* as an optional extra. He began his campaign to persuade the company's dealers in Germany to sell cars with Ford radios in 1986. At that time, 15 per cent of the company's vehicles sold in Germany had a factory-installed radio. Now, the proportion is 70 per cent.

Last July, his unit at Basildon began working on France. There the proportion of cars sold with radios is 5 per cent. The Netherlands and Belgium will be next. "I haven't done anything in Italy, because of the theft problem tbere. I haven't done anything in Spain for the same reason. It's not quite as serious in Spain as in Italy, but it's *still* serious." Ford is working on new ways of reducing radio theft, including distribnting the *various* parts of the radio to different parts of the car.

None of *the countries* be deals with is impressed by the news that cars are sold with radios elsewhere. "Every country thinks it's unique. They don't want to take over anything from any other market. They say 'it won't work here'. The first time I approached France, they said 'let's see how it works in Germany'. When it worked in Germany, they said, 'well, the fact that it worked in Germany doesn't mean that it will work here'."

Apart from having to adopt different selling techniques for different countries, Popinga says he has also learned to manage employees of different nationalities differently. For the most part, he says, the national stereotypes are correct.

"Generally speaking, the English *are* pragmatic. They want to get things done. The Germans have not learned to think laterally to the same extent. My manager there says they think in drawers. Cross-functional activities are much more difficult to carry out in Germany than here.

"The English do have an ability to laugh at themselves. They make jokes about themselves and the royal family. But I just stay *stumm*. They don't like yon to agree too vehemently. I've learned that."

Looking for security on the bottom line

Profit-sharing is increasingly popular among some City houses, but its value is at times questionable, **Richard Waters** reports

Some UK securities firms have *hit on e clever idea to keep* tbeir staff motivated. They promise them e share of anything from a quarter to e half of the firm's annual profits – a mammoth share, given the usually modest portion thet finds its way into such schemes.

There is e catch, of course. Many of these securities businesses don't actually make any profits.

This is not something that has escaped the attention of members of *staff. In the words of one employee* who is covered by one of these generous-sounding arrangements: *"Thirty three per cent of nothing is* not an awful lot."

However, the new profit-sharing arrangements mark an important development in the securities business, where discretionary bonuses have traditionally been preferred.

Two factors have brought about the change. The first is the high level of cost-cutting that has gone on in the past two years, including the many redundancies. Cutting costs hits morale. Making employees think that it may ectually be in their own interests could help.

The second factor is the problem, *familiar in many industries, of* motivating people who work in large conglomerates. Stockbrokers present a particular problem. Many can still remember the days, little more than three years ago, wben they worked in partnerships. They had none of the interference of bank owners and kept all of the profits of what was then a lucrative business to themselves. They are now left nursing their golden handcuffs and dreaming of the past.

Another problem is that stockbroking firms have grown in size and expanded into new markets, making it more difficult to operate the old informal bonus policies.

One answer is to give equity back to the managers. This was done last year by the consortium bank BAII, which allowed the managers of its then subsidiary Sheppards to buy back 50 per cent of their stockbroking firm.

This does not give them full control. They are outnumbered by five to four on their board by BAII directors. However, the new control they have over day-to-day matters has reinvigorated the firm, says Ian Maxwell Scott, managing director.

Staff took e 50 per cent cut in salary at the time of the partial buy-out. They have now recovered that in profit shares. This mey sound like taking one pace back *and one forward, but it is at least* better than finding yourself out of e job, which has happened to many others.

"I'VE BEEN OFFERED 50% OF THE LOSSES."

Another hank contemplating e partial management huy-out is Security Pacific, owner of Hoare Govett. The plan is still under wraps, but appears to be motivated by the bank's disillusionment with the securities business in the light of the US's continuing failure to let banks into the business inside the US, together with losses it has sustained through Hoare. One side effect would be to give more control back to the managers.

While not going this far, some banks have left e minority holding in the hands of their stockbrokers. *Former partners in the de Zoete and* Wedd predecessors of Barclays de Zoete Wedd (BZW), for instance, still hold nearly £100m of "founder" shares in the bank.

Others deride such efforts at motivation. There is no market price for the equity in the subsidiary, so how are the shares to be valued? "Shadow" equity arrangements, under which managers do not possess actual shares but are remunerated as though they did, are criticised for similar reasons. *The BZW answer is* an *annual* independent revaluation of the shares, the nearest thing to putting e value *on the business as a whole.*

While this approach is not common, most believe that employees would be better stimulated if they had a greater interest in their company's performance.

Commenting on Hoare's possible partial management huy-out, John McFarlane, managing director of Citicorp Scrimgeour Vickers, says: "There's no doubt that there is a sound notion behind it." Banks like *Citicorp* would *rather* give back the rewards of ownership than ownership itself, though.

Like others, CSV has moved to a greater degree of profit sharing and away from the traditional discretionary bonus *system. Earlier* this year it instituted profit sharing in its London office. Although it will not publicly discuss the proportion of profit paid to London employees, it is far higher than the sort of 10 per cent that industrial companies would consider more than generous.

It is not only the Americans who have moved in this direction. For instance, Credit Lyonnais, seeking to inject some motivation back into its heavily loss-making subsidiary Laing & Cruikshank, has agreed to allow a large chunk of London profits to be shared locally.

Ian Hay Davison, chairman in London of Laing & Cruikshank and Credit Lyonnais Securities, *says* he *cannot* reveal the *details for fear* of arousing the envy of others in the Credit Lyonnais group who do not get to keep so large e share of the profits they create. But the approach may well be working; competitors report that morale at Laing & Cruikshank has risen in recent months.

These schemes and others like them vary in their terms, but would generally return anything between a fifth and a half of locally earned profits to employees.

They *also* tend to be *more* focused *than previous* schemes, giving smaller groups of employees a share of the returns from their efforts.

This, though, *creates* a problem in an industry where the markets in some instrumsnts (gilts, for instance) are too crowded to yield much profit, while those in others (such as Japanese equity warrants) are bringing good returns. Is it fair to penalise those who happen to work in an area where there is little chance of making e profit in the first place?

A senior executive of one City firm, which did not want to be named since *it is still discussing* a new profit-sharing deal with its parent bank, is not moved by this argument. "If *you're going through a* bad time, that's the business you're in. You may be unhappy, but I'm not sure you have a right to be," he says.

However, even this hard-nosed executive relents a little: "If someone made a really supreme effort in an unprofitable area, then he might be given a bonus."

Of course, until profits actually begin to materialise, all this talk of profit-sharing is of little use. One way of getting around the problem in the meantime is to pay out a minimum amount to all employees, regardless of the ectual performance (an interesting use of the term "profit-sharing").

Another is to persuade employees to look further ahead than one year. For instance, CSV's scheme is for three years; *with any luck, its performance should improve over time.*

A third epproach is to play around with the term "profit". Securities firms employ a good many sophisticated analysts, and they are not blind to the odd bit of profit enhancement. As one says: "It all depends how you add the numbers up."

This may get firms through the next year or two. What happens beyond this is anybody's guess. For instance, it is debatable, when steady profits finally begin to materialise, whether long-suffering bank shareholders will be happy to see anything up to 50 per cent disappearing into the pockets of employees.

Correction

Enso-Gutzeit

In Friday's article on Finnish joint ventures in the USSR, Enso-Gutzeit's FM2.4bn deal with Moscow's Ministry of Forest Industries was incorrectly converted to a sterling value of £34.5m. This should have been £345m.

ARCHITECTURE

Where is our civic pride?

Colin Amery bemoans the fate of the Museum of London

The road to hell is paved with good intentions: go visit the Barbican in the City of London. During this year's long hot summer the Barbican Arts Centre, with its concrete terraces and fountains, almost came into its own. On certain days it looked like those architectural perspectives of the 1950s with happy crowds gathering under striped umbrellas looking into a cloudless future.

The differences in planning and architectural attitudes of the 1950s and the 1980s are profound, one of them being the provision of public buildings. Not that comprehensive development is entirely a thing of the past, but a quick comparison between the Barbican and London Docklands graphically illustrates the decline of *planning and the effect of the liberation* of market forces.

After the end of the Second World War the City Fathers had a vision for the Barbican: it would be residential and commercial, include schools, a major London arts centre, a new museum and a college for the teaching of music. The cultural and educational elements may have been the last parts of the scheme to see the light of day, but they did, and were always seen as the vital antidote to commercial forces.

Today you may be forgiven for thinking that commerce has vanquished culture. Test this thesis by a simple experiment called "find the Museum of London."

Most major cities of the world have museums of their history; they are vital for schools and represent a kind of cultural loadstone for the city. It was 1976 when the new Museum opened its doors at the west end of London Wall, combining the contents of the London Museum in Kensington Palace and the Guildhall Museum to provide the citizens with a comprehensive and changing display of the history of London.

But can you find the Museum? *Today it resembles an archaeological* relic completely submerged by building *sites*. Access to the museum has always been poor. It has suffered from the impenetrable pedestrian podium *and that sense of alienation so effec*tively conveyed by the architecture of the Barbican. Recently, this separation has been made even worse by the commercial redevelopment of London *Wall, Aldersgate Street and Little* Britain.

I doubt whether many people are aware of the devastating effect of drills, dirt and development on the museum. Visitor figures have dropped by half a million people a year. Trade has correspondingly dropped in the shop and restaurant. The museum's capacity to raise money from business sponsorship is severely jeopardised by its invisibility.

Once, eventually, inside, the visitor will be confronted on the podium by a fine display of dying lilacs, wilting fatsias and dead bamboos. The entrance lurks at a distance reached only after a long walk over stained black bricks and a procession of litter bins. A glance down the hole that passes for a garden reveals kitchen *refuse and something* called (presumably ironically) "the environmental office."

Tony Andrews

Museum of London: inaccessible among a jungle of walkways and surrounded by building sites

There is worse to come. To the west of the museum in Little Britain a real monster is rising *in* the form of the Wimpey office development. The responsibility *for this* 300-foot ziggurat of offices just to the North of St.Paul's lies firmly with the Secretary of State for the Environment: local objections and the planning refusal of the City Corporation were overruled. It is hard to believe that the Royal Fine Art Commission could have liked the scheme. The result will be horrific.

The building currently under construction is designed by the Fitzroy Robinson Partnership. It is insensitive, dominant and ugly. The token "conservation" of some 19th century façades around St. Botolph's, Aldersgate and Postmans' Park seems completely pointless. *Part of the second*ary road system linking London Wall *to Newgate Street will pass beneath.*

Alban Gate, the giant office development for MEPC designed by Terry Farrell, which will bridge the west end of London Wall, is going to be another overpowering neighbour for the museum. There is no way it can gain visibility and prestige when it is utterly and remorselessly smothered by commercial development.

The current exhibition, whimsically entitled *The Lord Mayor and the Thames*, shows just the tip of the iceberg of the collections relating to London as a world port. Negotiations between the Museum of London and the London Docklands Development Corporation for a new museum of London's river and docks have been going on fruitlessly for ten years. Perhaps it is time for the City Corporation to face the inevitable and sell the Museum of London site to any of the developers who are *surrounding it on all sides and, with* the not inconsiderable monies, move the Museum of London to a prominent central site.

It has been suggested that the riverside buildings of Somerset House (currently occupied by tax officials who could work anywhere) and the refurbished but empty Billingsgate Market would make two perfect museums. They could be linked by a river boat service. Why not a new Museum of London as part of the new Paternoster development by St. Paul's? If every estate agent and property developer who has built in the City in the 1980s gave one per cent of the profits to a new charitable trust a new museum could be built tomorrow.

The lack of civic pride in London makes this so unlikely as to be laughable. And that is the tragedy of architecture's marriage with commerce. It has buried cultural aspirations and a sense of the prestige *and history* of the *City underneath* the concrete walkways.

SPONSORSHIP

BP rehangs the Tate

The Tate Gallery is to *receive* its largest ever sponsorship gift, £300,000, from BP. The sum is also the largest amount given by the company to an arts organisation.

The money will help pay for a comprehensive rehang of the Tate's collection, which will also involve redecoration of walls, the removal of false walls and ceilings, and the resanding of floors. In all, the spring clean will cost £500,000.

The rehang is the first obvious sign of a new director at work. Nicholas Serota took over a year ago and is using the rehang to show the full spread of British art from 1550 to the present day, dissolving the present divide at 1900. Twentieth century British art, which is currently largely consigned to the basement, will be brought up to the principal floor. International modern art, *a sector that Mr Serota is keen* to develop, will be integrated into the flow.

The Duveen Galleries will be restored to their original function as a *sculpture court, and* visitors will now follow a central axis into a chronological display of art. The new presentation will open to the public *on January 20, 1990: for the* preceding ten days the Tate will be closed.

Every nine months or so there will be a change of paintings (a dozen galleries will be re-hung in September next year), giving the Tate the opportunity to show off in depth particular schools inside its collection.

At the moment around two thirds of its holdings are not on public view.

Regular visitors to the Tate will find every work of art in a different place and around 25 per cent of the exhibits will be fresh to the eye. The aim is to ensure that, by frequent changes, more of the art will get an airing.

★

It is often said that sponsors shrink from supporting fringe arts activities. It is undoubtedly true that many companies prefer to be linked with safe, well established institutions, like the London orchestras, where they can entertain clients at concerts in the knowledge that nothing will happen to disturb their guests. But experimental dance troupes, music groups, and drama companies do have their backers.

Next week Barclays Bank will show that it is prepared to take a chance by encouraging what could be controversial new plays. It will announce that it is giving £225,000 over three years to boost fringe drama, or what it calls "independent theatre companies."

Each year, informed judges will select up to eight of what they consider to be the best fringe theatre groups in the country. Barclays will underwrite a month long London showcase season for their work at the Royal Court Theatre. The cash will also go towards commissioning *new plays for* the season.

Antony Thorncroft

Glasgow-based brewers Tennents have announced a £250,000 patronage of next year's City of Culture celebrations, the biggest single sponsorship of the Scottish event.

The Tennents events range from a new year's day Viennese concert by Glasgow Philharmonic Orchestra to a three-week run by the touring company Communicado in a new piece of music theatre by Liz Lockhead at the Tramway. Centrepiece of the Tennents portfolio will be the inaugural concert at the Glasgow International Concert Hall, which will be given by the Scottish National Opera in the presence of Her Majesty the Queen.

Tennents's dramatic leap into the sponsorship list for Glasgow 1990 puts it at the head of a spending league topped by brewers and distillers. *Whyte & Mackay is put*ting £135,000 into the Van Gogh exhibition, while Matthew Gloag and Son, manufacturers of The Famous Grouse whisky, leg by a head at £100,000. Teachers has made a year-long commitment to the festival's press centre.

The alacrity with which Scotland's alcohol industry has embraced Glasgow 1990 reflects a national trend towards a wider and more imaginative arts sponsorship than in most sectors, as advertising gets more sensitive and marketing more important.

Tennents is typical of Bass subsidiaries in its pitching of sponsorship at a local, corporate level.

Its sister company, the Midlands-based Bass Mitchells and Butlers pumps an amount "substantially into six figures" each year into Midlands-wide sponsorships ranging from the Birmingham Symphony Orchestra to its £100,000 Young Achiever and Working for the Midlands awards, which last year gave bursaries to three *young musicians and this year* will give a substantial cash boost to a creative project still to be selected.

The search for e brand *image that is stylish*, eye-catching and appropriate has been a recurrent theme. Most conspicnously imaginative of the beer sponsors in recent years has been Becks Bier, which, in the four years it has been seriously marketed in Britain, has based its image on its patronage of avant-garde arts traditionally avoided like the plague.

George Wyllie's paper boat, a 50 foot long, 30 foot high epitaph to Scotlands shipyards, was one recent beneficiary; coming up is a national tour and exhibition by performance artist Silvia Ziranek, whose ontsized representations of domestic *items* will share a launch party with extra-size bottles of Becks, as yet only available in Germany.

While companies like Book of the Year backers Whitbread prefer a single substantial initiative, others spread a broad net.

Guinness United Distillers is an example of a firm that has exploited the tenson between corporate and brand identity, using Harp's sponsorship of the Edinburgh Assembly Rooms to keep a presence in the festival while the expiry of a three-year commitment by Guinness itself has enabled it *to concentrate* its energies elsewhere.

The tricky issue of name-association has been negotiated by Harveys of Bristol, whose backing of the Leeds Piano Contest guaranteed it hours of television time without the all-important Harveys prefix to the contest's title. Harveys routes some 40 per cent of its sponsorship through the competition, concentrating the rest on musical events in the south west of England on the basis that "wine and music have a good affinity."

The importance of propriety in alcohol sponsorship is *emphasised by Mary Bailey*, of Harveys, who says: "I don't think we'd sponsor motor racing, because we're a drinks company, and we wouldn't *back anything closely* associated with children or teenagers."

For sponsors with a clear head and clear conscience, one need look no further than the burgeoning water industry. Perrier UK Ltd, which markets five waters, has a brand profile for each of them – Pick of the Fringe awards and the graphics hall at London's new Design museum for style-conscious Perrier; croquet and parliamentary tugs-of-war for all-English Buxton and sports and fitness events for purer than pure Volvic.

The aim? That today's fitness-fixated, alcohol-eschewing generation should have a water for every occasion. Naturelle.

Claire Armitstead

King Lear

BREWHOUSE THEATRE, TAUNTON

The Oxford Stage Company's touring *King Lear*, directed by John Retallack, is dressed, like the Clwyd *Othello* I saw last week, in the costumes of the *Edwardians and unattributable* uniforms, and played on a bare stage with a minimum of furniture. (Designer, Phil Swift.)

The lights go up on a boardroom table with a big chair at the head and six smaller chairs at the sides; but before the action begins, a boy sings a wordless song.

Then Kent and Gloucester set the political scene in a conversational way, and Lear (Philip Voss, grey but vigorous) takes his seat and begins the division of his kingdom. It is not for some time that he realises his errors; when he *demands* "Who put my man in the stocks?" he still believes in his kingly *authority*.

His descent into madness, beginning at "Poor naked wretches," is admirably done, but it is a pity the storm is so loud that much of the dialogue over it is muted.

Stuart Richman's Gloucester retains his intrinsic dignity even while he is being bound to a bench to have his eyes put out, but from then on dignity gives way to pathos, equally genuine.

Kent, too, (Billy Hartman) is strong on dignity; I never saw a *man* so relaxed in the stocks. But his tripping of the "base football-player" is truly professional.

Gloucester's two sons are an *odd pair. John Kazek's* Edmund is Scots, Glaswegian I suspect, and wears a kilt; Simon Kunz's Edgar is at his best after he has exchanged a somewhat elusive court manner for a touching Poor Tom – though I think John Retallack is wrong to give him the funny bits with his head *poking through* the cardboard box at the hovel.

Raymond Greenaway's athletic, barefooted Fool is a good match for his master.

Deborah Findlay's headmistressly Goneril is easily the more hateful of the elder sisters, though Carla Mendonca's Regan, in her less bullying way, is pretty hateful. Matilda Ziegler's Cordelia is not quite lovable enough to justify her dangerous attitude to her father; she is a real match for her sisters.

The lack of furniture for some reason takes a *dimension* from the narrative. I felt sometimes as if I were at a stage *reading*.

The company is reduced as far as possible. Casual servants, followers, messengers are represented, when necessary, by the boy that sang the introductory song, a girl, actually (Saira Todd), identified in the programme as Curan, but acting as various others, including the player of the percussion in the wings that is sounded to signify changes of scene.

The interval is held until the end of Shakespeare's Act 3, that is after about two hours and 10 minutes' playing, but the audience was as patient and attentive as if they were at *Die Walküre*. The production *now tours throughout the next* two months.

B.A. Young

H.I.D. (Hess Is Dead)

ALMEIDA THEATRE

The RSC season at the Almeida continues with the world première of a superb short new Howard Brenton play not about Rudolf Hess. Commissioned by the Mickery Theatre *in Amsterdam, it investigates a* variety of attitudes towards historical truth.

Surrounded by imperial chairs and TV monitors, an investigative journalist, Larry Palmer (David Calder), who believes in nothing at all, is interviewing the young widow, Charity (Polly Walker), of a famous Jewish Hess-hunter, Istvan Luber. They are in a Swiss sanatorium. Left alone with a VTR machine and some tapes, Palmer invokes both familiar film footage of Nuremberg and Spandau, and a UNESCO committee convened on the day of the war criminal's death (August 17 1987) to prepare a statement for world media consumption.

If Hess did not hang himself, but was bumped off and was not even Hess to start with, Brenton does not posit a theory, not even a conspiracy theory, *about the identity of that* grim granite-jawed greycoat pacing his barren garden for 40 years under intense round-the-clock surveillance.

He merely suggests that history is re-written for the sake of some nebulous political convenience and propaganda. How could such an old man hang himself from a window latch? Why was the noose of electric wiring smeared in acetone? Why did Hess not agree to see his wife for 28 years?

Palmer is shown a filmic analogy of Hess's physical decline in a floppy-limbs, falling-over ballet choreographed by Gaby Agis *and danced by* Charity. This sequence, and the eternal media bombardment of facts snipped and tailored in advertising and news programmes, are tamely managed in Danny Boyle's production. One imagines the Mickery *will let rip.*

Finally, we see a tape of Luber himself, who died on the same day as Hess, fatally gorging himself on oysters before burning conclusive evidence of Hess's non Hess-ness. This ogre-like "mortician of the truth" is none other than the author Brenton leering down the lens from his pig-sty incinerator.

This sombre beat of lamentation is inter-cut with the dry, crackling comedy of two conference delegates, a linguistic academic flown in from Paris (Diane Fletcher) and a Marxist professor, hilariously done by *Pip Donaghy, who is cashing in* on the William and Mary tercentenary celebrations while lancing the notion of EC culture ("Goethe drowned in a vat of rancid butter"). Both have records as undercover intelligence aids, both are pleased to *be with UNESCO, floating on* "the flagship of freebies." These scenes I cannot imagine the Mickery doing so well.

The idea accumulates of Europe ganging up on its past, while the obsessive devotion of Charity to Istvan is linked to Constanze's passion for Mozart, Simone de Beauvoir's for Sartre. She is married to both ghost and exorcist. Meanwhile, if truth lies in stones, then Brenton must make the walls of Spandau speak; and he does, in a powerful, cunningly rhymed recorded poem he recites himself, angrily, on their behalf.

Michael Coveney

The Astronomer's Garden

THEATRE UPSTAIRS

The Croydon Warehouse, under Ted Craig's direction, has cornered a profitable little market in costume plays dealing more or less abstrusely with the rights and issues of bygone days as seen from a contemporary perspective. After David Allen's urbane analyses of Jonsonian comedy and Victorian patriotic zeal (*Cheapside* and *Glorious Things*, respectively), Kevin Hood sets his cap at the late late Stuarts in a production *transported to the briefly* reopened Theatre Upstairs, a year after its Croydon premiere.

This remarkably assured second play pits the illusion of scientific certainty against the certainty that it is all an illusion. Beneath the bluster of knowledge and the bluff of statistical analysis, man is merely asserting his *droit du seigneur*, whether that means comically fallacious assertions about the anatomical differences between male and female brains, or chasing the household skivvy round the tables.

The garden of the title belongs to John Flamsteed, *astronomer royal* to Charles 11, whose choleric temperament led to notorious quarrels with everything from Sir Isaac Newton to his apple. The historical presence of a young Mrs Flamsteed, whose one claim to posterity was the sale, on her aged husband's death, of his entire collection of instruments, fuels the speculative drive of the play through her naive romantic attachment to a dissolute young dilletante sent to spy on her husband, and her subsequent revenge on the male of the species.

Images of sexual and economic exploitation surge through a play which borrows a structure from the upstairs-downstairs antics of Restoration comedy, and a sensibility from the 19th century novel. The passionate young woman imprisoned by dry-as-dust science; the eager young assistant who dreams of Cambridge as he runs to do his masters bidding seem, perplexingly, to come straight from the pages of Hardy and George Eliott.

However, there is an impressive vigour to writing which is admirably served by a cast who find a happy medium between period mannerism and contemporary consciousness: Charlotte Attenborough, particularly, makes an excellent job of the sparky little skivvy, antithesis to Emily Richard's fine-featured Mrs Flamsteed.

Claire Armitstead

ARTS GUIDE

September 26-October 2

MUSIC

Paris

Orchestre National de France conducted by Jeffrey Tate, Margaret Marshall, soprano: Richard Strauss (Wed). Theatre Des Champs Elysées (47203637).
Orchestre de Paris conducted by Semyon Bychkov, Alexis Weissenberg, piano: Dutilleux, Ravel, Beethoven (Wed, Thur) Salle Pleyel(45630796).

Versailles

Centre de Musique Baroque evokes 1789, the crucial year, bymusic in Versailles from October 1 *till November* 25. *Therewill* be the *opening* mass for the states general, symphonies dedicated to Marie-Antoinette and a concert given over to her harp*music*, works by the *Italians in Versailles* and an eveningof music of the Trianon Palais. (42334900). Tickets to be boughtat the entrance to each of the concerts.

Vienna

Orpheus Chamber Orchestra. Soloist, Alfred Brendel. Beethoven, Mozart, Copland, Prokofiev. Musikverein. (Mon).
Wiener Schubert Trio. Mozart, Schumann. Musikverein. (Tues).
Wiener Symphoniker, conducted by Erich Leinsdorf. Brahms, Schumann, Busoni. Musikverein. (Wed, Thurs).

Frankfurter Feste 1989

This year's Frankfurt Festival with the title of A Common Brotherhood is based on two historic events: the French Revolution in 1789 and the start of the Second World War II 50 years ago.

The programme attempts to explain the historic events and their influence on contemporary culture and society in terms of the struggle for liberty. There will performances of works by Mauricio Kagel, of Britten's War *Requiem and Prokofiev's Alexander* Nevsky. Most of the Beethoven symphonies will be played by the Concertgebouw Orchestra Amsterdam, conducted by Riccardo Chailly, the Berlin Philharmonic, Leningrad Symphony, the Saito Kinen Orchestra under Seiji Ozawa. The North German Radio Orchestra will perform Krzysztof Penderecki's Polish Requiem, under the composer. Other highlights include a concert version of *Andrea Chenier* starring Renato Bruson, Franco Bonisolli, Maria Guleghina and the Budapest Radio Choir conducted by Gianluigi Gelmetti, as well as Handel's rarely played *Tamerlano*. There will be also be contemporary music by Wolfgang Rihm, Mauricio Kagel, Michael Sell and Antonio Madigan. Experiments, musical theatre, chamber music, exhibitions and open-air music round off the programme. Alte Oper: tickets Frankfurt 069/1340-400. Ends Oct 3.

Bonn

Beethovenfest will be the highlight of Bonn's 2,000th anniversary celebrations, with around 30 concerts. Bonn, Beethoven's birthplace, focuses on a wide range of his works, played by international orchestras, while Beethoven's works will be juxtaposed with those of a contemporary composer, who this year will be Leonard Bernstein.

Among the orchestras appearing are: Berlin Philharmonic under Lorin Maazel, Royal Concertgebow Orchestra Amsterdam, conducted by Riccardo Chailly, the London Classical Players, the English Baroque soloists and the Monteverdi Choir of London, conducted by John Eliot Gardiner, the Vienna Philharmonic under Leonard Bernstein, the Dresden Philharmonic, the Bonn Beethovenhalle Orchestra under music director Dennis Russell Davies, who is also the artistic director of the festival. Last day. Konzertkasse Tel: 0228/775756.

Berlin

Berlin Festival until Oct 2 will be a forum of 'East meets West'. A Maurizio Pollini piano recital with works by Brahms,Schoenberg and Beethoven (Sat). Chamber Orchestra of Europe and soloist Gidon Kremer, Yuri Baschmet, conducted by nikolaus harnoncourt in Mozart and Schubert (Sun). The Hamburg Philharmonic Orchestra and Vladimir Ashkenazy (piano),conducted by Gerd Albrecht plays Aribert Reimann, Brahms and Janacek. Philharmonie. Ludwigsburger Schloss, Theater im Forum: 25th anniversary concert of the Monteverdi Choir London and the English Baroque Soloists, conducted by John Eliot Gardiner in Mozart and Beethoven (Wed).

Chicago

Chicago Symphony Orchestra conducted by music director-designate Itzhak Perlman (violin). Brahms programme. (Tue, Thur). Orchestra Hall (435 6666)

New York

New York Philharmonic. Zubin Mehta conducting. Mozart, Mahler (Tue); Helmuth Rilling conducting Mozart (Thur). Avery Fisher Hall (874 2424)
Julliard Orchestra. Otto-Werner Mueller conducting with Allison Eldredge ('cello). Beethoven, Elgar, Brahms (Wed). Avery Fisher Hall (874 2424)

Washington

National Symphony Orchestra conducted by Mstislav Rostropovich with Paul Tortelier ('cello). Saint-Saens, Elgar, Schubert (Tue); Barry Douglas (piano). Mozart, Prokofiev, Goldmark (Thur). Kennedy Center Concert Hall (467 4600)
Alexander Toradze piano recital. Ravel, Mussorgsky, Beethoven (Thur). Kennedy Center Terrace Theater (467 4600)

Milan

Conservatorio G. Verdi. Warsaw Chamber Orchestra and choir conductedby Wojceich Czepiel singing Mozart Motets (Wed.) (76001755).

Rome

Teatro Olimpico. Two chamber music concerts: Mozart, Schulhoff andBrahms (Mon) and Boccherini, Weber and Schubert (Tues.) (393304).

Venice

Teatro la Fenice. Two afternoon piano recitals by Charles Rosen:playing Chopin Nocturnes (Mon) and Beethoven's last three Sonatas (Tues) (5210161)

Glasgow Citizens Theatre

With Glasgow designated the European Capital of Culture for 1990, the Glasgow Citizens Theatre has announced its programme for the entire year. The plays are: Pirandello's *Enrico Four*, translated by Robert David MacDonald, directed and designed by Philip Prowse (February 2 – March 3); *The Four Horsemen of the Apocalypse* directed by Jon Pope (March 9 – 31); Alexandre Dumas' *Antony* translated and directed by MacDonald (April 6 – 21); Brecht's *Mother Courage* with Glenda Jackson, directed and designed by Prowse (May 4 – June 2); Shaw's *Mrs Worren's Profession* directed by Giles Havergal (August 31 – September 29); Goldoni's *The Housekeeper* translated and directed by MacDonald (October 5 – 27); and Nicholas Rowe's *Jone Shore* directed and designed by Prowse (November 2 – 17).

M.C.

BBC Symphony Orchestra season

The BBC Symphony Orchestra's winter season will contains some important world and UK premieres, including BBC commissions, the first of which is Elliott Carter's "Anniversary" on October 5 followed by David Blake's Cello Concert on March 16, both at the Festival Hall.

Other world premieres, also at the Festival Hall, are from Tristan Murail, Pierre Boulez, Oliver Messiaen, Harrison Birtwistle, Jouni Kaipainen and Niccolo Castiglioni.

At the Barbican the BBC is presenting a Berio festival from January 14-17 which *will include four UK premieres.* The composer himself will conduct the BBC Symphony Orchestra in the opening and closing concerts, while the London Sinfonietta and BBC Philharmonic will give the second and third concerts.

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Monday October 2 1989

A bridge too dear

WHEN IT COMES to changing deeply ingrained habits, no amount of laws can match the power of saintary exampls. Hence the European Commission has reason to be pleased at the recent outcome of its dispute with Denmark over the award of a large bridge construction contract. Though Brussels failed to obtain all the corrective measures it sought, the incident gives e timely boost to its renewed attack on national barriers in the Community's £200bn a year public procurement market.

Acting on complaints from a disappointed bidder, the Commission accnsed Danish anthorities of violating EC rules by specifying the use of local materials and labour. Brussels dropped its efforts to get the contract suspended after Denmark edmitted wrongdoing and agreed to allow the unsuccessful bidders to seek damages and recover their bidding costs through arbitration.

As well as vindicating the Brussels intervention, the case is significant because the complainant was not Danish, but the French Bouygues group. Despite past EC efforts to open up public procurement, cross-border competition remains minimal. The EC has now set tighter rules for public tenders. However, they will not he enough on their own. First of all, they need to be firmly enforced. The Commission is expanding its own enforcement role and has won broad support for a proposal to entitle victims of illegal discrimination to seek redress at the national level.

Blowing the whistle

It has been argued that few contractors have bothered to compete outside their home markets because they considered their chances of winning too small; even fewer have been prepared to challenge the loss of contracts, for fear of offending governments. Some public procurement authorities have asserted that stricter EC tendering rules therefore threaten simply to add administrative hurdens without yielding any economic benefits. Bouygues's complaint suggests otherwise by showing that whistle-blowing can pay.

Secondly, existing directives need to be broadened to cover four large sectors – water, energy, telecommunications and transport – which are excluded because of past difficulty in devising rules to cover private as well as public enterprises. The Commission proposes to close the loopholes by basing its criteria for regulation not on ownership, but on the extent to which purchasers face competition and enjoy special government privileges.

None the less, even this test throws up many borderline cases. In deciding how widely to cast its net, Brussels cannot avoid subjective judgments. It needs to be sceptical of special pleading by companies seeking to escape regulation, while also taking care not to impose shackles where no clear competitive purpose is served. Above all, it should be ready regularly to review its own decisions on which industries are covered.

Open to outsiders

The third condition for the success of a single market in public procurement is that it should be open to participants from outside the EC. Wide international competition will ensure purchasers of the best value for money, while checking any temptation by European suppliers to form a Community-wide cartel.

The Commission's current proposals would entitle EC purchasing authorities to insist that at least half the value of the contracts they let must be of Community origin and would oblige them to give EC bidders a price preference. Brussels says it would drop these provisions if the EC's trading partners agreed in the Gatt to open their markets.

Used purely as an international negotiating lever, this approach could prove effective. As a practical policy tool, however, it looks impossibly bureaucratic and could easily play into the hands of those interventionists who argue that the EC needs an "industrial policy" to promote its supplier industries. That is exactly the kind of thinking that the Commission attacked at a national level in the Danish bridge case. What is rotten in the state of Denmark would be rotten for the whole of Europe, too.

A sexist policy on pensions

ONE OF THE greatest sources of sexual inequality in Britain is the unequal state retirement age. At the age of 65, men can expect to live for only another 13 years. But women are less prone to chronic illness and can expect to live for 17 years. Yet under present social security rules, women are allowed to retire earlier than men – at 60 as opposed to 65. Men thus die four years earlier but have to wait five years longer for their benefits. This means that women receive the state pension for nine years longer than men. Such a state of affairs seems indefensible.

The Eqnal Opportunities Commission has been campaigning for equal pensions treatment for men and women for more than a decade. The EOC is now taking legal action against the Government for failing to comply with the European Community's Social Security Directive, which took effect in 1984. The directive does not insist on equal retirement ages, but it does require eqnal treatment of men and women in the social security field. The EOC believes that Britain's national insurance contribution rules contravene the principle of equal treatment. At present, men have to pay NICs for at least 44 years in order to qualify for a full state pension, compared with 39 years for women. Even if a man has paid for 44 years, he still has to pay until he retires or reaches 65 whereas women stop paying at 60.

A strong case

The EOC's case is expected to be heard in the High Court early next year. The outcome of the judicial review is uncertain. But in economic terms, the EOC would appear to have a strong case. It cannot be fair to make men pay into the national insurance scheme for much longer than women when they are likely to draw the state pension for a much shorter period. The abolition of the "earnings rule" announced in the Budget, which takes effect this week, will further accentuate the inequality. After the age of 60, women who choose to continue working will not only cease to pay NICs but will also be able to draw their full state pension.

The Government could comply with the spirit of the EC directive by altering the contribution rules. But the source of the problem lies in the higher male retirement age. This leads to sex discrimination in other areas since many concessions are linked to the state retirement age. A redundant male aged 62, for example, does not qualify for free National Health Service prescriptions. The Government's approach also strongly influences behaviour in the private pensions industry: many occupational schemes discriminate against men.

Demographic trends

Reform is clearly needed. In order to reflect women's longer life expectancy, an actuarially fair state pension scheme would require a *higher* retirement age for women than for men. But this is not politically feasible, nor would it be perceived as fair. There is no reason, however, why the Government should not legislate for equal retirement ages. Many countries, including the US, Canada, Sweden, West Germany and France, have already taken this step. The European Commission has prepared a draft directive which advocates complete equality in the pensions field – for example the introduction of widowers' pensions as well as equal retirement ages.

But the principle of equality begs a question: should pension ages be levelled down or up? Demographic trends, which will increase the relative size of the pensioner population in the 21st century, suggest the retirement age for women should be raised. In the US, an increase in the common retirement age from 65 to 67 has already been agreed, although it will not be fully implemented until the year 2027. But the Government must also face a social reality: the *de facto* retirement age in the UK is falling: in 1975, 85 per cent of men aged 60 to 64 were in work; by 1986, the proportion had fallen to just over 58 per cent. The declining activity rate reflects individual choice as well as the impact of corporate redundancy schemes. One thing is certain: the male of the species deserves a better deal.

Guy de Jonquières and Hugo Dixon examine how Sony is turning European

The emergence of a global company

Most industrial companies, and particularly Japanese ones, which faced the task of digesting a $3.4bn overseas acquisition in an unfamiliar industry would want to draw breath before embarking on any strenuous new challenges. But not Sony.

For Sony's worldwide ambitions extend far beyond its proposed takeover of Columbia Pictures Entertainment of the US, which was announced last week. Indeed, the deal is just one element in a much more elaborate strategy by the electronics manufacturer to transform itself into Japan's first truly global company.

Sony is betting its future on a far-reaching internal reorganisation intended to create in each of its main overseas markets – the US, Europe, and Asia – a largely self-sufficient industrial and management infrastructure with substantial freedom to run its own affairs.

At the end of the process, the company reckons it will be positioned to respond with exceptional flexibility to new prodnct developments and changes in demand wherever it does business. But achieving its goal will tax its management resources and co-ordination on a scale without precedent in its 45-year history.

The essence of the company's plan is progressively to transfer from Japan the functions needed to perform the entire "product life cycle," from initial design and development through engineering and production to marketing and sales. Control would be vested in semi-autonomous regional managements, which would need to refer to Tokyo only on important matters of corporate strategy.

Many other Japanese companies are discussing similar policies of "global localisation," which go beyond mere assembly plants. However, Sony, which already has two thirds of its sales outside Japan and prides itself on its internationally-minded management philosophy, is much further advanced than most.

Though it is regarded at home as not typical of Japanese companies, it is also looked on as a pacesetter, whose successful innovations are widely imitated. Hence, its progress will be closely watched as a test case, both by its competitors and by authorities in host countries.

In Europe, Sony's drive has been given special urgency by the coming of the single market and fears of increased European Community protectionism, particularly in the sensitive electronics sector. Sony hopes not only to preserve access to its existing European markets, but also to position itself to enter new ones by winning acceptance as an "insider," treated on the same terms as indigenous companies.

Sony was among the first Japanese companies to manufacture in Europe, opening a television plant, at Bridgend, south Wales, in 1974. Today it has eight assembly plants and two development and engineering centres in six European countries. The company's European operations employ 8,300 people, 300 of them Japanese, and provided 23 per cent of its worldwide turnover last year.

Bridgend is a model of what Sony hopes to achieve in local manufacturing. It supplies all the colour televisions and tubes which the company sells in Europe, except for 14-inch models, and makes or buys in Europe more than 80 per cent of its parts and materials. By next year, an expansion of the tube plant will raise this proportion close to 100 per cent.

Overall, though, only 40 per cent of Sony's European sales is sourced locally. The company wants to raise local content by adding European production of high-value components including semiconductors, heads for video-recorders (VCRs), optical pick-ups for compact disc (CD) players and a magnetic tape coating plant. It is also setting up several small research and development operations and may consider making acquisitions, particularly in the fields of computer and entertainment software.

The proposed expansion, which would involve investments of several hundred million dollars, stems partly from a decision to shift production out of Japan in response to the strong yen. But Mr Jack Schmuckli, Swiss-born chairman of Sony Europa, admits that EC anti-dumping actions and local content rules have also played a role. "At bottom, it's a political decision, due to not knowing where 1992 will go," he says.

He also concedes that, even though Bridgend now matches efficiency and quality in Japan, manufacturing in Europe cannot be justified on strict cost criteria: "If we followed just the economics of manufacturing, we'd ship the lot from south-east Asia." However, he says Sony can exploit international opportunities effectively only if products are designed and made in the markets where they are sold, under the control of managers familiar with local conditions.

The centrepiece of Sony's European operations is an executive committee, known as European Keiei Kaigi (EKK), created two years ago. Chaired by Mr Schmuckli, with four Japanese and four European members, its remit is to take charge of corporate planning, appoint senior executives, control budgets and supervise the activities of Sony's matrix of business units and country subsidiaries.

Mr Schmuckli says the committee has already begun to co-ordinate European production and investment decisions more closely and to curtail duplication and rivalry between plants. An overall development plan is being drawn up, under which development efforts will be rationalised and each main product will be made in two plants in different countries.

Sony's top management shows every sign of being serious about localisation. It is something of a personal crusade of Mr Akio Morita, the company's chairman, and earlier this year Sony affirmed its commitment by appointing Mr Schmuckli and Mr Mike Schulhof, president of Sony America, to its main board.

Ashley Ashwood

Akio Morita: on a personal crusade to localise

However, some big hurdles must be overcome before Mr Morita's vision can become reality. The first will be to establish the legitimacy of the new local management structure among rank-and-file managers. This may not be easy in an organisation in which formal hierarchies count for less than personal relationships, many of which radiate from Japan.

For instance, Dr Rainer Kurr, general manager of Sony's European television operations, says he relies vitally on a network of contacts in Japan which short-cuts formal reporting channels. Getting important functions such as product development authority transferred to Europe can also depend, he says, on winning the personal backing of influential Japanese executives based in Europe.

He also casts doubt on how quickly Sony headquarters will, in practice, decentralise authority. Asked whether all the European units will eventually report to the EKK, he replies emphatically: "Not manufacturing. The eight European factories are basically controlled by Tokyo." Mr Schmuckli retorts that the EKK's – and his own – importance in the new scheme of things has not yet been fully appreciated. Line managers in Europe remain free to run their day-to-day affairs as they wish, but, he insists: "If they want money, if they want to build a new factory, if they want to change their organisation, they have to come to see me. I am top management in Europe."

Also central to Sony's grand design is that management should be entrusted to European nationals. It already has more local managers in senior positions than most Japanese companies and is renowned for its liberal use of headhunters. Hiring from outside obviously enables the company to "Europeanise" its operations much more rapidly than if it relied on growing its own talent. But some industry experts wonder how well Sony's much-vaunted corporate culture will withstand the influx of so many new recruits.

Mr Schmuckli, who joined Sony in 1974 after running Polaroid's subsidiary in Japan, dismisses such doubts. The company's culture, he says, has always been heterogeneous and is strengthened by continuous injections of new people and ideas.

His confidence is borne out by Sony's recent performance in Europe, where sales grew by 42 per cent in yen terms last year – faster than in the US or Japan. Return on sales was about 5 per cent, more than the company's worldwide profit margin.

But to sustain that record, Sony will need to broaden its business base in Europe, which still depends mainly on consumer electronics. Markets for some products, such as colour televisions, are growing mature, while increasingly fierce competition is squeezing margins on others, such as VCRs and audio equipment.

Like many Japanese rivals, Sony plans to emphasise more sophisticated and specialist products. It already has a sizeable, and highly profitable, non-consumer business in studio broadcasting systems. Newer areas earmarked for diversification include mobile telecommunications, robotics, computer intelligence and medical systems.

To succeed in most of these businesses, Sony will need to develop new distribution and marketing skills. And in some, particularly those under public sector control, it will need to overcome a strong bias in favour of European suppliers, which is likely to continue long after 1992.

Hence Sony's determination to become a member of the European "club." As a first step, it recently recruited Mr Tjakko Schuringa, a former Philips executive and latterly director of the European Commission's telecommunications division, to spearhead its expansion in that area. "If you want to become an insider, you start by hiring an insider," says Mr Schmuckli.

Sony would also dearly like to participate in joint industry research programmes, such as Esprit and Eureka, from which Japanese companies have so far been excluded. Its executives are unsure how much useful technology it would get out of them, but are confident that membership would constitute a valuable endorsement of its political acceptability.

EC authorities, however, seem likely to react with extreme wariness. While Brussels has long urged Japanese electronics companies to deepen their local investments, as Sony plans to do, it still views them more as an insidious threat to the strategic interests of EC technology industries than as potential allies.

The dilemmas facing Sony's quest for "insider" status are crystallised in the international war of nerves over high definition television systems. Japan was the first to develop an HDTV standard, known as Muse, prompting the EC hastily to formulate its own rival system HD-Mac, and to fund an industrial consortium to develop the technology.

Sony has promoted Muse as a world standard, but now recognises that it will almost certainly need to embrace HD-Mac if it is to win a share of future HDTV sales in Europe. Some Sony executives argue that it can only become a market leader in Europe if it is admitted to the EC development effort. But the EC consortium's rules would require Sony to support HD-Mac as the sole world standard, and that, according to Mr Schmuckli, it is not prepared to do. "We would never pay the price of abandoning Muse," he says. "We can't afford to abandon a global project for a regional one.

"From a Japanese viewpoint, we may not be a typical company, but that doesn't make us a non-Japanese company. In the final analysis, we will be driven by interests close to Japanese interests. We should not be ashamed, we should be proud of it."

This is the first of a series. Future articles will appear on the management page.

Where Sony makes its sales

	1984	1985	1986	1987	1988	1989
Japan	27.4%	25.8%	31.0%	34.8%	34.6%	34.1%
United States	33.9%	33.6%	30.0%	27.0%	27.9%	27.3%
Europe	17.5%	17.5%	21.7%	24.0%	22.6%	23.2%
Other areas	21.2%	23.1%	17.3%	14.2%	14.9%	15.4%

1984-86: Year ending October 31. 1987-89: Year ending March 31. 1987: Five months

Source: Sony

OBSERVER

Ingham on the record

■ Bernard Ingham became Margaret Thatcher's Press Secretary 10 years ago today, though the Prime Minister had little directly to do with his appointment – except to approve it. The pair of them had never met before and it took a two minute interview to seal the job.

Ingham thinks that his name was put forward by Sir Jack Rampton, then the Permanent Under-Secretary at the Department of Energy where Ingham had just been put in charge of conservation policy. Previously he had been responsible only for the publicity. Rampton asked if he would like to go back to Government Information. Ingham said "only at the top", which was where he landed.

Possibly Sir Clive Whitmore, then the Prime Minister's Principal Private Secretary, also had something to do with it. Ingham had been on a civil service course with him a few months before.

Ingham is the off-the-record voice of the Prime Minister: well enough known to political journalists, less so to the wider world. Much of the news, and some of the comment, that you read about the British Government comes through him. He says he prefers this anonymity: "The system would not permit me, an unelected official, to become a media personality."

There has been no change in his working methods since he started. Ingham has a deputy, three other press officers, two secretaries and an office manager: what he calls "a small tight group". You have to be "instinctive about the way you work," he says, "and get under the skin of the Minister. It is an enormous asset to work with a Prime Minister who doesn't change her mind."

Ingham denies that he has taken total control of the Government information machine. The Prime Minister's Press Secretary has always run it: he has simply tried to coordinate it. He is pleased that nearly all his deputies have gone on to become chief information officers at various Ministries. Over 70 Government press officers have been given training at No 10 Downing Street during his stewardship. "It is very satisfying in my advanced years to have developed a personnel management system."

His worst experience was having to deal with the Falklands War. The most touching, he says, is "watching girls and ladies of all shapes and sizes come tumbling out of cupboards or wherever to get close to Mrs Thatcher – especially in Japan."The best is "coming to work in the morning for the infinite variety". A regret – he calls it a great tragedy – is that the conspiracy theory holds so much sway in the British media. "There is a lot of malice around, and that depresses me."

He would like to stay till the next general election and reaches the retirement age of 60 in June 1992, about the last month in which it can be held. He might write a book. He might go the University of Newcastle and help teach a course in government relations. But the book, if it comes, will be a manual of his office. There will be no great spilling of beans, though (off-the-record) he has spilled a few in his time and has no doubt concealed some as well.

Not typical

■ Not all Japanese businessmen conform to a pattern; Kazuo Inamori is one of the more idiosyncratic. Over 10 years ago the Financial Times described him as a "myth-breaker from Japan".

Inamori, now 57, is the chairman of Kyocera, the industrial ceramics and electronics group which has just announced a takeover of AVX, a US electronic components maker.

"National Power? It takes all my electrical appliances six months to come on."

The only son of a small print shop owner, he has an impatient ambition that riled the managers of a Kyoto ceramics company where he began work after graduating in applied chemistry. A series of arguments prompted him to leave the company in 1959, taking seven colleagues with him. He founded Kyoto Ceramic which, as the name suggests, later became Kyocera, the world's largest manufacturer of integrated circuit ceramic packages. He went to the US to sell his ideas to Texas Instruments very early on.

Inamori likes to call himself an "intrapreneur", a jargon word that he uses to mean a business person who "creates new venture divisions within one company". He disclaims any desire for great personal wealth. "We have a saying," he says: "Money has legs and if you try to catch it, it will run away from you."

In 1984, he established the Kyoto Prize, designed to reward outstanding achievement. On his definition that means *standing* a few thoughts away from the norm. Among the winners of the prize have been Dr Noam Chomsky, the linguist, and Dr John McCarthy, the artificial intelligence researcher.

Golfing times

■ Chelsfield, the private property company engaged in transforming Wentworth Golf Club, has been shocked by the depth of feeling against its plans to offer £800,000 equity stakes plus 800 additional corporate memberships. The share placings have not gone as smoothly as was hoped.

Wentworth diehards – known at other local clubs as the Wentworth boat people because no-one else will have them - have registered their own complaints by snubbing the bar.

There has been some talk about placards at the forthcoming Suntory Matchplay at Wentworth. Residents on the Wentworth estate adjoining the course are also miffed at the idea of increasing hoards of golfers at the foot of their gardens. As one member said: "There is nothing to stop them starting their lawnmowers as Greg Norman approaches an important putt in two week's time."

Listen hard

■ Letter to parents from the Somerset Health Authority: "Dear Parent, Your child's hearing will shortly be tested at school as part of a routine screening. If the hearing falls below a certain level, you will be invited to attend a clinic for further investigations.

"If you hear nothing, you may assume that your child's hearing was normal on that day."

Barry Riley reports on the new pan-European market for collective investment funds

A $500bn market opens up

It may only be a modest trailer for the big feature film due to première at the end of 1992, but the European Community's Ucits directive which became effective yesterday could provide some valuable clues to the potential for a single European market in financial services.

From now on, national boundaries will disappear for mutual funds or investment companies which qualify as "undertakings for collective investment in transferable securities" (Ucits). For example, the UK's Securities and Investments Board has so far recognised 15 foreign funds, all based in Luxembourg.

Many marketing teams around Europe are now working urgently on the problem of how to exploit the new potential for internationalising a $500bn market which up to now has remained stubbornly domestic. There will be no immediate rush, because important countries such as West Germany and Belgium have failed to implement national legislation in time for the October 1 deadline. In any case, it will take several months for the bureaucrats to process the documentation. But the momentum is likely to build up over the next year.

It all goes back to Bernie Cornfeld. The notorious founder of Investors Overseas Services (IOS) rampaged across Europe in the late 1960s selling mutual funds in what was largely a regulatory vacuum. Mutual funds suffered a terrible loss of public confidence.

In response, governments imposed restrictive legislation which prevented the cross-border marketing even of reputable funds. It then took many years for the European Commission patiently to negotiate the Ucits Directive, which was agreed in 1985. Nowadays, under pressure of 1992, things are moving a lot faster in sectors like banking and insurance.

Some countries have been very keen. Luxembourg has eagerly seized the opportunity to build a role as the EC's very own "offshore" centre for mutual funds, by rushing through laws setting up a favourable regulatory and tax structure. It licensed 130 new funds last year, and working flat out, the Institut Monétaire Luxembourgeois (IML) has already recognised 115 more so far this year, making a total of 640 worth over $60bn. Ireland has recently sought to go for the same potential market, based on its tax-free Financial Services Centre in Dublin. The UK has also been at the forefront, partly because it was convenient to include legislation within the 1986 Financial Services Act, and partly because the British investment services industry is keen to expand on the Continent.

Other countries have been more restrictive and protective. The classic case is Germany, which was probably hit harder than anywhere else by IOS, and has subsequently buried its retail investment industry in red tape.

Many such restrictions will remain, because the passport given to Ucits only relates to their authorisation. They will still need to comply with the particular marketing rules in each country where they are sold. It is a prospect that has left many investment fund promoters gasping in dismay at the complexity of the challenge facing them. Even as powerful and successful a unit trust group as Britain's M & G has still not decided on an initial Ucits strategy.

What exactly is a Ucits? It can vary in structure so long as it follows certain basic rules. It must be an open-ended fund with the sole object of investment in transferable securities (so that funds investing in, for example, property, commodities or money market instruments cannot qualify). Various rules serve to provide for diversification of investments, and to restrict borrowing and investment in unlisted securities.

In Germany 73 per cent of the market consists of bond funds, against 10 per cent in the UK

To begin with, the Ucits must be authorised in its home state. It can then apply to its home regulator for a Ucits certificate. The SIB, for instance, has already made preliminary contact with UK unit trust managers and anticipates that some 400 out of the 1,300-odd UK trusts might apply. There will be no charge for recognition at this stage.

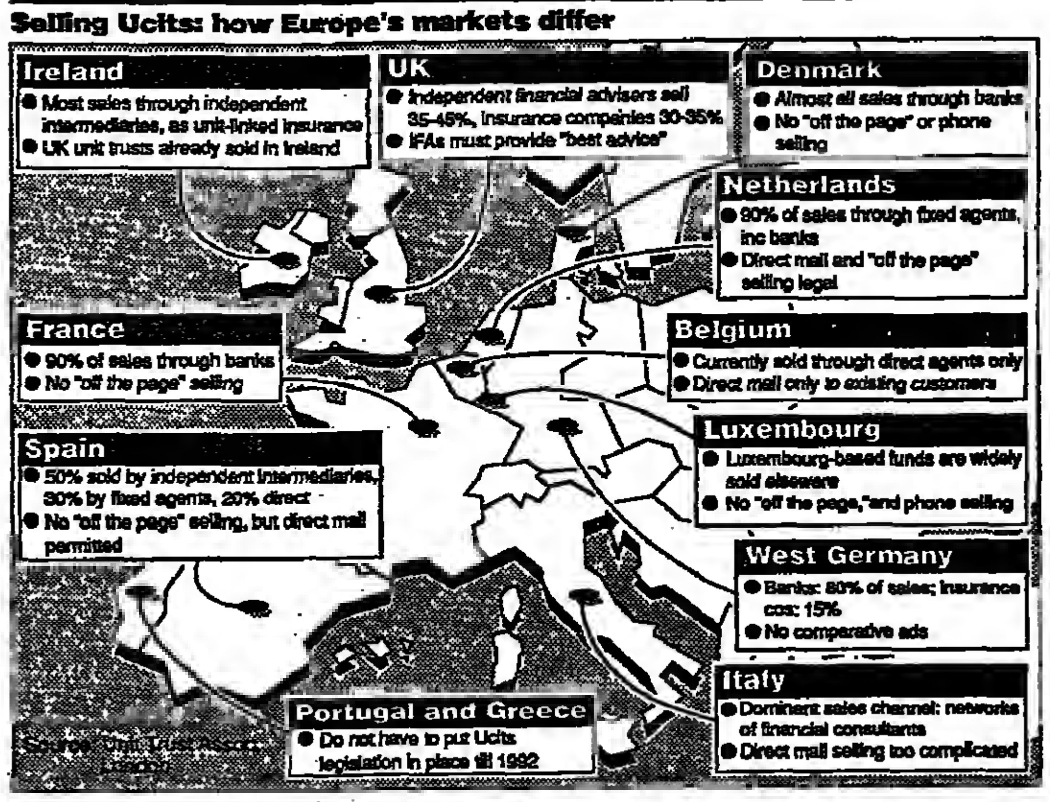
A fund which wants to sell into, say, France, will then be able to take its certificate, along with documentation describing the fund, such as rules and annual reports, to the French regulators. It must also supply details of its marketing plans. Two months later it may begin marketing, unless some proper ground for objection by the French officials has been presented.

A reasonable fee may be payable for host country clearance: the SIB charges £1,000 initially and £1,000 annually thereafter. Certain special marketing conditions may also be imposed. SIB regulators are considering, for example, whether advertisements on behalf of foreign Ucits should be required to point out that such funds are not covered by the UK's investor compensation fund.

Although cross-border sales of Ucits will only build up very slowly from now on, there is already a big impact at a corporate level as European investment institutions jostle for position. Continental banks have acquired several British unit trust groups: Dresdner Bank bought Thornton last year, for instance, and Société Générale of France recently acquired Touche Remnant. The strategy behind many of these deals is to match up British fund management skills with the distribution capacity of Continental retail banks.

For British managers seeking to sell on the Continent, distribution is less easy to acquire. To develop it from scratch would be very costly.

Selling Ucits: how Europe's markets differ



"You must be prepared to invest £30-40m over a three to five year period," says Mark St Giles, a former chairman of the Unit Trust Association, and now an independent consultant.

The cheaper alternative is to link up with Continental banks and gain access to their branches. A number of deals of this nature have been struck. But the fund providers are very vulnerable to the risk that the host bank will take on the business itself, once sales have grown and the bank has developed its own expertise. "If you don't control the customers, at the very best you are on the fringes," warns Mr St Giles.

Accordingly, one of Britain's biggest investment institutions, Robert Fleming, which owns Save & Prosper, last month announced an ambitious plan to build a 300-strong sales team in France over the next few years.

An important part of the French product range will be the Luxembourg-based Ucits range launched under the umbrella title of the Fleming Flagship Fund last year. "You couldn't sell a UK unit trust to French investors," says Christopher Cottrell, director in charge of European marketing. "They wouldn't like subscribing in sterling, and they wouldn't understand the structure."

Tax is also a big obstacle to the cross-border marketing of Ucits. In theory a Continental investor is entitled to reclaim the 25 per cent tax deducted from the dividend on a UK unit trust, but the prospect of filling in forms for the UK Inland Revenue is unlikely to fill him with enthusiasm.

This is the big opportunity for Luxembourg, which has created a highly favourable tax regime for Ucits, including the payment of dividends gross. Germany had to end its attempt to apply a 10 per cent withholding tax on bonds, after a big exodus of funds to Luxembourg and weakness in the D-mark, and this year's attempt by the EC tax commissioner Christiane Scrivener, backed by the French in particular, to impose a uniform EC withholding tax also failed.

There will now be considerable pressure on governments of EC member states to allow gross dividend payments on Ucits, at least for non-residents. Otherwise Luxembourg will continue to claw in big volumes of business, despite the expensive queues at its lawyers and at the IML.

Certainly the Luxembourgeois do not believe that funds should be taxed in ways that make life easy for tax inspectors but difficult for investors. "France wants to multilaterise its own problems," claims Jean Guill, a director of the IML.

From now on, mutual fund markets across the EC are likely to become more similar. But they start from widely different positions. They vary in size from $220bn in France to just $6bn in Spain (these are end-1988 figures) according to a recent study by Anthony Rohlwink of Spicer & Oppenheim Consultants. Moreover their investment composition varies to an important degree: in France there is a substantial element of money market funds, while in Germany 73 per cent of the market consists of bond funds, against just 10 per cent in the UK, where equity funds are overwhelmingly more popular.

In terms of marketing, bank outlets dominate in many countries, notably in Germany where they sell an estimated 80 per cent of funds. But non-bank intermediaries predominate in Italy.

One basic marketing decision is whether to try to gain a slice of the big existing markets, or to try to open up undeveloped markets like that in Spain. Different countries will attempt to exploit their particular skills. Deutsche Bank recently launched three Luxembourg-based bond funds in the UK, to local scepticism about the chances for this kind of unfamiliar product, and British groups will hope to exploit their more glamorous global equity expertise in the German market, if they can somehow find a chink in it.

Few contenders will eventually succeed, but at least they now have a better chance to build a Europe-wide mutual fund business than for at least 20 years. They would be wise, however, to avoid names like Fund of Funds, or Dover Plan. There are still bruised investors out there with long memories.

LOMBARD

Bad reasons for dollar action

By Samuel Brittan

THE DECISIVE action taken by central banks to stop the dollar rising is right, but partly for the wrong reasons; and reasons do matter.

A legitimate reason is that the underlying US inflation rate is itself nearly 5 per cent. In these circumstances a depreciation of the D-Mark and the yen against the dollar increases inflationary pressures in Germany and Japan.

Another reason for the Group of Seven having an exchange rate policy lies in the real costs of currency misalignment. The overshooting and undershooting of the US currency by up to 40 per cent in either direction in recent years have been destabilising and wasteful for business. More damaging still are the protectionist pressures when the dollar is high, which act like a ratchet and are not removed when the currency falls back. It was fears of protection that caused even the Reagan Administration to reverse its original non-interventionist stance at the time of the Plaza accord in 1985.

Now for the bad reasons. One big influence behind last week's intervention was the fear that the recent height of the dollar would worsen the US payments deficit and by inference increase the surpluses of Japan and Germany.

This is out-of-date thinking with a vengeance. Even in its own terms the mainstream view could well be wrong. The Goldman Sachs international economists estimate that, not only is the dollar below its purchasing power parity, but that the US measured current deficit will stay at around $120bn in 1989 and 1990 – in contrast to the IMF, which expects it to increase to $138bn. More interestingly, Goldman Sachs expects the Japanese surplus to fall below $60bn while the IMF expects it to rise to $90bn.

Goldman Sachs is no more likely to be wrong than the IMF which predicted a widening of the US deficit this year – the opposite of what has occurred – and has now pushed out the change to 1990.

More fundamentally, the official resons given for the G7 intervention take no account of the fact that current account payments deficits and surpluses are normal in a world where capital movements are free and national differences in savings and investment are large. An IMF research paper cited by Chancellor Lawson shows that current account surpluses and deficits much larger than the present were common in the heyday of the Gold Standard. For instance the British annual surplus averaged 4¼ per cent of GDP in the 30 years before the First World War, while the Canadian deficit averaged 7¼ per cent in 1900 and 1910.

Most harmful of all, the conventional talk of payments "imbalance" ignores the great benefit to a world of scarce savings of the Japanese and German surpluses, without which international real interest rates would be higher and the developing debtor countries in much greater trouble than they are.

But the wrong thinking behind the G7 move goes even deeper. For even if it were clear that the US payments deficit needed to be cut, a policy of dollar devaluation is the wrong way to go about it. A new paper by Ronald McKinnon and David Robinson (Dollar Devaluation, Stanford University, California 94305) suggests that the main effect of the on-off US push for dollar devaluation since 1971 has not been to improve US competitiveness, but to put the US on a higher inflation path, and that the resulting high nominal interest rates have shortened the time horizons of American business and adversely affected investment and productivity.

One danger of acting for the wrong reasons is that the intervention may have aimed at too low a dollar rate. A greater danger is that the same thinking might lead to further attempts to depress the dollar further when the opportunity arises. The result will then be, as in the 1970s, more inflation, higher interest rates, and greater instability in the US and probably in other G7 countries as well. Such are the effects of practical men under the influence of econometricians stuck in a time warp of a quarter of a century.

LETTERS

Western governments and the Khmer Rouge

From Dr Peter Carey.

Sir, Your editorial on Cambodia ("The shadow of Pol Pot," September 21) rightly concludes that there can be no place in Cambodia's future for the Khmer Rouge. It is less than frank about the role played by Britain and other western governments in rebuilding the Khmer Rouge during the past decade – and too optimistic about the capacity of Prince Sihanouk to break free from his Khmer Rouge mentors.

Far from merely according a "kind of legitimacy" to the Khmer Rouge after their defeat by the Vietnamese in 1979, western governments, lead by the US, have guaranteed their international recognition through the Khmer Rouge's tenure of the Cambodian seat at the UN. The maintenance of this seat since June 1982 in the name of the "Coalition Government of Democratic Kampuchea" (CGDK) – nominally headed by Prince Sihanouk – is a piece of pure political fiction. The seat is still legally the prerogative of the Khmer Rouge, which appoints all the CGDK's ambassadors and directs its foreign policy.

Furthermore, the US and other western governments have contributed materially to the rebuilding of the Khmer Rouge in their military camps on Thai sovereign soil. Up to 1982, the US provided lethal aid. Since 1982, it and other western governments have continued to supply food aid through the UN Border Relief Operation (UNBRO).

Now that Vietnam has withdrawn its troops from Cambodia, the Phnom Penh government alone faces the Khmer Rouge. Although it cannot be said that all Cambodians are behind Hun Sen, it is certainly true that nearly all Cambodians are against the return of the Khmer Rouge, either as partners in a government of "national reconciliation" or as military victors. Any Khmer Rouge presence in Phnom Penh now would be a recipe for a civil war bloodier than any of the upheavals of the 1970s, and one which would foreclose Cambodia's future as an independent state.

The Paris conference failed principally on this issue. Indeed, a rare opportunity was lost for the West, for, after Tiananmen, the Chinese government (the main international backer of the Khmer Rouge) was dangerously isolated and could not have held out for Khmer Rouge participation alone. Instead, the US, while publicly excoriating the Khmer Rouge, privately concurred with China that their participation was desirable. The stage was then set for deadlock, with China and the West accusing Phnom Penh and the Vietnamese of "intransigence."

Prince Sihanouk, on whom the West has pinned so many hopes, is inextricably linked with the Khmer Rouge. After years of imprisonment and psychological torture at their hands, he is unable to break free. The suggestion that the prince can somehow be persuaded to ditch his mentors and come to a deal with Hun Sen is a non-starter. The idea has been tried time and time again over the past two and a half years and has not worked.

If western governments are genuinely interested in helping the the Cambodian people and preventing a return of the killing fields, the way forward is clear. They can support Thai Prime Minister Chatichai Choonhavan's efforts to end Cambodia's isolation through the opening of road, rail and telecommunications links between Bangkok and Phnom Penh. Once Phnom Penh ceases to be isolated, the Khmer Rouge will begin to be.

Western governments can also cut off relief supplies to the Khmer Rouge camps on the Thai-Cambodian border and put pressure on the Chinese to end their arms shipments. They can vote in the forthcoming UN General Assembly meeting on Cambodia for the removal of the Khmer Rouge from the Cambodian seat. And they can declare that the seat should remain vacant until a new government is formed in Phnom Penh following internationally monitored nationwide general elections.

The western governments can tell Hun Sen that development assistance and diplomatic recognition will follow on the holding of such elections (humanitarian assistance should begin immediately). Finally, the western governments could end once for all the Khmer Rouge leadership's claim to international respectability by arraigning them before an Asian Nuremburg Tribunal to be tried for crimes against humanity.

Peter Carey
Fellow and Tutor in Modern History
Trinity College,
Oxford

Hedging exchange transactions

From Mr R.A. Ledingham.

Samuel Brittan takes to task those who examine only "headline" inflation rates but he consistently examines only "headline" foreign exchange rates.

The tendency of international manufacturers to provide their own currency stability by hedging their foreign exchange exposures has grown significantly since the early 1980s, possibly to the point at which the economy will not respond in a traditional manner to an increase in sterling's spot value which is induced by increases in interest rates. Hedging does not only delay the effect of exchange rate movements, it changes the exchange rate at which trade is priced.

Prudent companies have a number of ways to hedge their foreign exchange transactions, but the effect is best illustrated by examining forward sale or purchase of foreign currencies over the period needed to react commercially to a change in their spot exchange rates. This period will typically be 12 to 18 months and a large proportion of our routine trade with Germany is taking place at a rate of DM 2.70 to DM 2.90, not the "headline" spot rate above Mr Brittan's much-loved "DM 3.00 zone."

There is no strict arithmetic equalisation, but when the spot rate of sterling changes as a result of higher interest rate differentials, the forward rates will move in opposition to the change. Not only does this restrict the government's ability to damage British manufacturing industry, it also reduces the anti-inflationary benefits of a high sterling rate induced solely by attracting capital to high sterling interest rates.

Spot exchange rates are of course important, they do affect investment decisions and the pricing of some new business, but their effect is not as immediate as it was in 1981-82.

R.A. Ledingham,
Rose View,
Hethe,
Oxon.

Landlords and tenants

From Mr Anthony Rosen.

Sir, The Country Landowners Association (CLA) is to be congratulated on its recent initiative to question its members on how relations between landlords and tenants can be improved so that the CLA, can make sensible representations to the Government.

As your correspondent (Bridget Bloom, "Landowners call for reforms in farm tenancy system," September 28) points out, the percentage of agricultural land held under tenancies has fallen in this century from nearly 90 per cent to 38 per cent. The true number of genuine arms-length tenancies today (as opposed to fiscally-advantageous family arrangements) is probably below 25 per cent.

The Minister of Agriculture, quite understandably takes the view that for any changes in the current restrictive tenancy laws to be effective, there has to be a consensus within the farming industry.

The main reason that the National Farmers Union (of which I have been a member for 33 years) is against the addition of 10-year tenancies, to run alongside the lifetime tenancies now in force, is that the committees within the union which decide policy, both at local and national levels, are filled out with existing tenants.

Young (potential) farmers – the ones who would gain from any change – would vote overwhelmingly in favour of this desirable step forward.

Unless the existing tenants can be made to realise the need for change – change which would in no way detract from their current positions – the system of landlords and tenants, which has been the main reason for British farming's success in the past, will deteriorate even faster and British agriculture will suffer even more as a consequence.

Anthony Rosen,
Feenix Farming,
Foxhill, Elstead,
Surrey

FINANCIAL TIMES
Monday October 2 1989

Roderick Oram on Wall Street

Spain Fund fireworks

STOCKBROKERS in Madrid watched in amazement and amusement last week as the Spain Fund, a US mutual fund investing in Spanish companies, performed like a whirling dervish on the New York Stock Exchange.

In furious trading volume some 15 times its daily norm, the fund's shares soared 45 per cent on Tuesday then plummeted 23 per cent on Wednesday to $29.75 a share. It closed the week at $31⅞ for a premium of more than 100 per cent over the value of its constituent stocks.

Is Spain e new Eldorado? "This could have been a fund based on the Isle of Dogs. It had nothing to do with fundamental investment values," said Mr Michael Lipper whose New York firm, Lipper Analytical Services, tracks the performance of mutual funds.

Instead, the small fund of 10m shares was the victim of a spectacular short squeeze. On one side, waves of Japanese small investors clamoured to buy the stock, egged ou by the sales pitch from big Japanese investment dealers about Spain's rosy future in post-1992 Europe. On the other side, professional short sellers in New York were convinced the stock was aboot to plunge to a more realistic price closer to its asset value.

But things turned out far differently. The Japanese firms scrambled frantically to buy the shares to meet their retail orders. The price zoomed np forcing the short sellers to buy stock to cover their positions. With the fund chased upwards by buyers, the latest victim of Japanese herd investing, Spain looked briefly like a dodgy place to put money.

"One shouldn't mistake Japanese trading habits for volatility in the Spanish market," said Mr Daniel Phelan of Benito Imonjardin, a leading Madrid brokerage house.

It was reminiscsnt of the summer of 1987 when a surge of Japanese investment in Telefonica, the Spanish telephone company, drove up its share price 25 per cent in a few weeks, said Mr Francisco Gonzalez, another leading local stockbroker.

Analysts in Madrid and New York were puzzled why foreigners felt they had to invest through the Spain Fund, paying in effect double the price of the underlying shares. "I could assemble the same portfolio in an hour with one phone call," said Mr Lipper.

"I think any professional investor knows how to invest in Spain," said Mr Gonzalez, and that is directly through major investment firms in New York and London which have trading relationships with Spanish brokers.

The old days of antiquated settlement procedures, high commissions and other impediments to direct dealing were fading fast, added Mr Phelan.

But botb brokers tbought the flap over the Spain Fund could only help their business.

Small retail investors will always welcome the convenience and advantages of single-country mntual funds, argued promoters of them.

Some single-country funds have special access to the local market. The Spain Fund, for example, takes stakes in private companies.

Some countries such as South Korea, Taiwan and Thailand only allow foreign investors to own shares in local companies throngh country funds, making them essential to even the biggest investors.

Several traumatic performances have shaken the industry, such as the implosion of the Mexico Fund at the beginning of the decade. The collapse of international oil prices devastated the Mexican economy, currency and stocks. As a result the asset value of the Mexico Fund shriveled from $120m to $20m.

Only one new country fund was launched in the US in 1981, another in 1984 and one in 1985. But since then, the tempo has picked up with four in 1986; five in 1987; five in 1988; and two so far this year – both last week – according to Lipper Analytical Services.

Dealing with the Spain Fund fireworks has preoccupied Alliance Capital Management, the huge New York money manager which runs it. Bnt the firm was still able to launch last week its new $65m Austria Fund. By the snd of the week its price had claimed modestly to $15⅛ from $12.

"We hope to do more of them, mostly for retail investors, said Mr Dave Williams, Alliance's chairman. Bnt he was very unhappy about the short sellers of the Spain Fund.

"I wish they would find somewhere else to play. We're trying to run a respectable business."

REPORT QUESTIONS LOGIC OF SWITCHING ASSEMBLY TO HAMBURG

German Airbus plan under fire

By Paul Betts, Aerospace Correspondent, in London

A CONFIDENTIAL report by one of the four "wise men" behind recent structural changes at Airbus Industrie has provided powerful ammunition against e West German attempt to transfer final assembly of the new narrow-bodied A-320 airliner from Toulouse to Hamburg.

Mr Jacques Benichou, former chairman of the French Snecma aero-engine gronp, warns that the risks far outweigh any eventual economic benefits and threaten "the credibility of Airbus Industrie and its position in the market."

His detailed study will strengthen France's cass against the transfer in forthcoming negotiations with Bonn and is also likely to help swing Britain to the Frencb side.

Although the British Government and British Aerospace (BAe), UK partner in the Airbus consortium with a 20 per cent stake, have sought to keep out of the dispute over the fast-selling A-320, they hold the balance of power between the two biggest Airbus partners, Aerospatiale and Messerschmitt-Bölkow-Blohm (MBB), each with a 37.9 per cent stake.

BAe said last week that it did not mind where final assembly took place as long as the site was the most commercially viable for Airbus Industrie as a whole. But in his report, Mr Benichou discloses that at an Airbus executive board meeting last June, Britain and Spain, which has a 4.2 per cent stake, expressed concerns similar to those of France abont transferring assembly of the consortium's most successful programme at this stage.

UK Government officials also indicated last week that they were leaning towards the French case which questioned the economic rationale of setting up a new assembly line in Hamburg where labour costs are particularly high.

Mr Benichou was commissioned with Mr Jurgen Krackow, a senior West German steel executive, to draw up the confidential report by President François Mitterrand and Chancellor Helmut Kohl.

Airbus production line at Toulouse: MBB wants to transfer assembly to Hamburg

In contrast to Mr Benichou's report, which is centred on the specific A-320 issue, Mr Krackow has taken a more global approach, analysing consolidation at one site of the final assembly of aircraft sections of all Airbus programmes. He believes there would be benefits, but his general conclusions do not appear to address the immediate risks of transferring the A-320 line which is now operating near optimum production capacity.

The Benichou report argues that the transfer of final A-320 assembly five years after the programms's launch would increase overall production costs, run a serious risk of late deliveries, and undermine the consortium's growing commercial success.

Mr Benichou questions MBB's contention that the complete final assembly cycle of the A-320 could be reduced from 65 working days to 42 if transferred to Hamburg. At present, A-320s are assembled at Toulouse at a rate of eight a month (due to rise to 10) and then flown to Hamburg for fitting np and subsequently flown back to Toulouse for delivery to customers.

The report points out that it takes Boeing 43 working days to complete assembly of the 737 short-to-medium range airliner and 63 days for its narrow-bodied 757. Under the circumstances, Mr Benichon argues that the MBB estimate is "unrealistic".

But even if the final assembly cycle could be cut to 50 working days the overall savings would be small, according to Mr Benichou. He claims the switch to Hamburg would save Airbus between $6.4m and $9.3m in annual costs, a relatively insignificant figure considering one A-320 costs $36m and ths A-321 stretched version costs $45m.

Transferring to Hamburg would entail new investment and non-recurring costs of at least $200m, says Mr Benichou. There would also be additional costs of about $100m to cover new investments in Toulouse since Aerospatiale would have to be compensated for the loss of final A-320 assembly work with other operations to preserve its work-sharing quota in the programme.

The issue is expected to be taken up by President Mitterrand and Chancellor Kohl at their next bilateral meeting.

MBB, which has mounted the West German campaign, is pressing for a decision before the end of the year. Until now, it had hoped to secure not only the backing of its own Government but also that of Britain and also BAe. The latter, which has recently been pressing hardest to transform Airbus Industrie into a more commercially-minded enterprise, was long regarded as a natural ally of the West Germans against French domination of the Airbus programme. But the British side appears to consider the latest West German manoeuvres as essentially a political attempt to boost the country's aerospace industry.

But MBB, which is in the process of being absorbed by Daimler-Benz, now also appears to be finding it difficult to persuade its own Government to give unconditional backing to its efforts.

Mr Erich Riedl, Secretary of State at the West German Economics Ministry in charge of co-ordinating aerospace activities, made clear last week he was not yet prepared to give full support to the MBB plans pending their examination by Mr Kohl and Mr Mitterrand.

Airbus Industrie itself has officially taken a nentral stance so far. But the consortium is clearly worried by the potentially damaging repercussions on its commercial prospects of a new political row.

"Now that Airbus is beginning to be regarded as a commercial venture, does it make sense to see the partners bickering in public again and making a big political issue, risking undermining the overall credibility of the consortium?" one French aerospace official remarked at the weekend.

UK Labour Party puts EMS entry as early policy objective

By Philip Stephens, Political Editor, in London

THE BRITISH Labour Party yesterday offered a firm commitment to full UK membership of the European Monetary System. This came as Mr Neil Kinnock, the party leader, prepared to launch at the annual conference a determined attempt to persuade the electorate that Labour is the "party of Europe."

As the week-long conference at Brighton, a south-of-England seaside town, began, Mr John Smith, Opposition spokesman on the economy, said a future Labour government would make negotiating entry into the EMS exchange rate mechanism an "early objective of government policy."

His confident tone appeared to confirm that Labour sees support for the EMS as a key plank in convincing voters that it would not allow a sharp surge in the inflation rate.

His comments came as Mr Kinnock, buoyed by Labour's strong standing in the opinion polls, ruled out a switch towards a voting system embracing proportional representation, insisting instead that the party could win the next general election without help from smaller parties.

In a lengthy interview on BBC television, Mr Smith insisted that if Labour won power it would aim to hold down inflation to the level of Britain's main competitors and would resist "constant devaluations of the pound."

It would aim instead for the stability which indnstry needed if it were to boost investment and exports.

Mr Smith repeated that a Labour government would have to negotiate a number of conditions before it could take sterling into the EMS. These included a competitive exchange rate, a commitment to co-ordinated policies to promote growth and more extensive currency intervention arrangements.

Mr Kinnock's aides, however, were insisting that none of these would provide a significant obstacle to a rapid decision to join after the next election and the Labour leader has begun to refer to them as "negotiating points" rather than conditions.

Speaking ahead of the expected endorsement by the conference of a decisive shift towards the centre in Labour's policies on the economy, defence and trades union reforms, Mr Smith also ruled out any large increase in public spending.

Conference report, Page 8

Archbishop hits at Government

By Ralph Atkins in London

DR Robert Runcis, the Archbishop of Canterbury and leader of the world's 70m Anglicans, has provoked a political squall in Britain by saying that the country was turning into a Pharisee society of self-interest and intolerance.

His remarks - widely perceived as criticising Thatcher Government policy - were welcomed by Opposition leaders as "very much on target" but criticised by the Government's supporters in Parliament.

The Archbishop, whose comments may well sour relations between his church and Prime Minister Margaret Thatcher, also stirred controversy by attending Papal Mass in Rome's St Peter's Square and embracing Pope John Paul.

Dr Runcie's four-day Italian visit, which ends today, was designed to ease divisions between Anglicans and Roman Catholics but has also led to protests and accusations of betrayal by conservative Protestants in Britain.

On Saturday, he called on Christians around the world to accept the Pope as a universal leader.

Dr Runcie criticised what he called excessive self-righteousness and dismissive attitudes towards the less fortunate. He noted that the Pharisees, traditionally renown for their pretentions to superior sanctity, attracted the scorn of Jesus Christ.

"The present Government supports a view of society in which an individual's rights and duties are enhanced. This is part of the Christian ethic, bnt the Church always balances this with its understanding of Christians belonging to one another and making np the body of Christ."

"The successful are always tempted to regard their success as a sort of blessing or reward for righteousness. This can lead to judgments being made about the unsuccessful, the unemployed, the poor and the unintelligent which are both uncharitable and untrue."

The Church's presence in areas of Britain where the Conservative Party had little support made it "sensitive to the needs of those areas and that section of the population which has not benefited from the last 10 years of Conservative Government."

Peugeot strike threatens export models

Continued from Page 1

By the weekend they were at least 35,000 cars behind schedule, according to an unofficial Peugeot estimate.

That is the equivalent of 2.75 per cent of last year's Peugeot groop outpnt of 1.27m. The main impact so far has been on the 205 supermini, Peugeot's biggest selling model, which accounts for about two-thirds of the cars held up.

Analysts are cautious about predicting the effect on Peugeot's profits – FFr8.8bn ($1.4bn) net last year – given that the group is efficient enough to make up the shortfall extremely fast. Until now, the group has managed to rely on the month's supply of cars in stock between the factory and showroom

They are now starting to feel the effect of diminished output, although the group reckons it can limit the shortages, likely to be felt in the next few days, to northern export markets, mainly Scandinavia and West Germany. The damage to the rest of Peugeot's sales is limited by the fact that it is still able to keep output going at roughly half of normal rates at Mulhouse where the end-of-June output was 1,300 vehicles per day and at Sochaux, where normal output is 1,800 cars.

Meanwhile, Peugeot can still make 205s at a slightly smaller assembly plant at Poissy, just outside Paris – the scene of violent riots over planned cuts to the group's workforce five years ago. However much the group can in the end limit the damage, Peugeot executives privately admit the strike could not have come at a less fortunate time.

It casts a shadow over the launch of the 605, of prime strategic importance to the group's hopes to add some upmarket territory to its traditional preserve as a pure volume producer.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	23	73	Dubrovnik	S	20	68	Malta	S	25	77	Rhodes	F	26	79
Algiers	S	25	77	Edinburgh	F	14	57	Manchester	C	13	55	Rio de J'o	F	23	73
Amsterdam	C	15	59	Faro	C	24	75	Manila	C	31	88	Rome	F	21	75
Athens	F	25	77	Florence	S	21	70	Melbourne	F	13	55	Salzburg	C	11	52
Bahrain	S	33	91	Frankfurt	C	17	63	Mexico City	F	25	77	San Francisco	F	21	70
Bangkok	F	34	93	Funchal	F	20	73	Miami	C	30	86	Seoul	C	24	75
Barcelona	S	23	73	Geneva	F	17	63	Milan	C	20	68	Singapore	F	31	88
Beirut	F	30	86	Gibraltar	C	22	72	Montreal	C	17	63	Stockholm	C	13	55
Belfast	F	18	65	Glasgow	C	13	63	Moscow	F	13	54	Strasbourg	C	17	63
Belgrade	F	13	55	Guernsey	C	17	63	Munich	C	12	54	Sydney	F	29	84
Berlin	C	16	61	Helsinki	F	07	45	Nairobi	C	23	73	Taipei	R	30	86
Biarritz	S	17	63	H. Kong	R	28	82	Naples	S	21	70	Tangier	F	27	81
Bombay	F	27	81	Innsbruck	S	16	61	Nassau	•	–	–	Tel Aviv	S	33	91
Bordeaux	S	19	66	Inverness	C	14	57	New Delhi	F	35	95	Tenerife	C	26	79
Brussels	C	16	61	Islamabad	F	33	91	New York	R	20	68	Tokyo	F	25	77
Budapest	C	17	63	Istanbul	R	20	68	Nice	S	22	72	Toronto	F	18	64
B. Aires	F	25	77	Jakarta	F	31	88	Nicosia	F	33	88	Tunis	C	24	75
Cairo	F	37	99	Jersey	C	19	66	Oporto	S	27	81	Valencia	F	23	73
Cape Town		–	–	Jo'burg	F	30	86	Oslo	F	14	57	Venice	S	19	66
Caracas	C	27	81	Lima	C	19	66	Paris	C	17	63	Vienna	F	11	52
Casablanca	S	25	77	Lisbon	C	25	77	Peking	S	25	77	Warsaw	F	10	50
Chicago	F	24	75	London	C	14	57	Prague	S	14	57	Washington	F	15	59
Cologne	C	15	59	Los Angeles	C	28	82	Reykjavik	C	08	46	Zurich	S	16	61
Copenhagen	C	17	63	Luxembourg	F	14	57								
Corfu	F	22	72	Madrid	F	24	75								
Dallas	-	–	–	Majorca	S	24	75								
Dublin	C	12	54	Malaga	F	23	73								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Soviet coal industry crisis

Continued from Page 1

were simply "a show of emotions."

"This changing of personnel brings no benefit and simply causes disorganisation of production," Mr Shchadov said.

The most critical problem in the weeks before winter closes in appears to be the bottleneck on the railways, with excess stocks stranded at pithead dumps now standing et 35m tonnes – an increase of 18.5m tonnes over the first eight months of the year.

Mr Shchadov said the situation was worst in the Kuzbas, in western Siberia, where the mines failed to receive 43,500 wagons in August and September alone, and coal heaps were burning from spontaneous combustion at 11 different sites. Many had had to cut production because of lack of coal storage space.

The other key problem is supplies of equipment, including pit props, sleepers, rolled metal, steel pipes and cement. He said repair of damaged mineworkings was at a standstill and the lack of timber meant that "it is impossible to ensure safe working conditions for the miners."

THE LEX COLUMN

Leaning on the wall of money

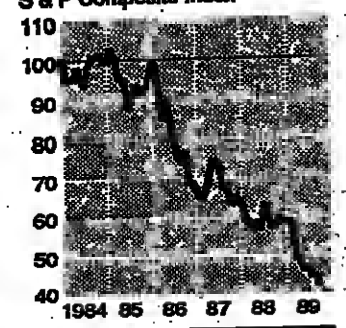
Throughout 1989, the weight of money argument has given many a bull a peaceful night's sleep. Institutional cash flow has been strong, the Government has been redeeming gilts and equity issues have been rare. It has all added up to a convincing case that funds managers should be piling into UK shares.

They have done, to a limited extent, but more money has gone abroad. Sixty per cent of institutional cash flow in the first half was devoted to purchases of overseas equities and bonds. This was, in part, a restoration of the equilibrium after the repatriation of institutional assets that followed Black Monday. Nevertheless, the weighting of UK equities in institutional portfolios is still at reasonably high levels historically – 46 per cent, according to BZW. And cash, far from piling up and itching to be spent, was running at a relatively modest 4.4 per cent of total assets in the second quarter this year, a lower proportion than at any time in 1988.

Supply constraints may now be disappearing. The rights issue has made a modest comeback – £283m from Polly Peck earlier this month and last week issues from British Airways, Mount Charlotte, Evered and Wace which totalled just under £600m. Add in the second instalment of British Steel and the November privatisation of water and the calls on institutional purses start to mount up. Given the rising levels of corporate borrowing, equity issues are more likely to accelerate than to diminish.

If base rates do rise to 15 per cent, then the arguments for holding onto cash will increase. Even after last week's fall in share prices, institutions are still sitting on a 26 per cent gain in the All-Share since January 1. They must be feeling the temptation to lock in their profits with some judicious selling.

IBM
Share price relative to the S & P Composite Index



Dutch issues

The Dutch Government would never think of imitating the British in privatising its great national utilities like gas and water, even though it could dearly do with the money. But when the Dutch do occasionally flog off unwanted bits of their public sector it is clear that they know just as much if not more than the British about how to sell unpopular issues.

Take DSM, the highly cyclical chemicals conglomerate, of which the Dutch were last week able to offload for a second time in six months another third of the shares. It was the largest transaction of its kind in the Dutch market and investor demand was said to be "overpowering," whatever that means. Persuading investors to buy shares in a company whose earnings are expected to fall sharply next year is no mean feat, especially given that DSM has significantly underperformed the market since the initial issue in February and that the second tranche was priced at a discount of less than 2 per cent to the current share price. At least the first time round, investor interest was fuelled by the existence of a grey market price 7 per cent higher than the offer price. A prospective multiple of 4.5 times 1990 earnings may sound cheap, but it would be surprising if DSM shares did not get cheaper.

However, international investors who missed out on last week's DSM issne will shortly get another chance to pit their wits against Dutch marketing skills. The Government plans to sell off half its stake in the new NMB Postbank, whose merger is completed this week. NMB's financial record is a bit better than that of its larger rivals, Amro and ABN, and the merger with Postbank should lead to considerable cost savings if they can ever get rid of the surplus staff. However, these benefits are almost certainly discounted in a share price which is already at a significant premium to the banking sector.

In addition, Dutch banks are no different from any other. They have an insatiable appetite for new capital, their margins are under pressure and there is an added technical problem in NMB's case. If its big institutional investors are to keep their tax break they have to maintain their holding above 5 per cent of a much bigger capital base. If just one of these holders decided not to proceed it could increase the amount of NMB paper coming into the market by as much as a fifth.

All of this would not be so bad if there was an ample supply of good independent advice. But Amsterdam, like London, suffers in this respect; banks and brokers do not want to lose ont on the lucrative undsrwriting commissions associated with this type of transaction. As a result, it would be a great surprise if there were any major sell recommendations on NMB stock until this latest privatisation has been safely got out of the way.

IBM

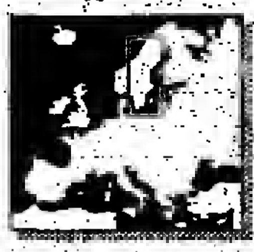
Last week's profit warning from IBM was not merely an embarassment for the company, centring on its problems in delivering a new disk-drive. It also brought into focus some profonnd qnestions about IBM's destiny and that of the computer industry. If, as Wall Street now expects, the company's full-year earnings per share come out below $10, then the latter half of the 1980s will have seen its earnings dropping by a compound annual rate of 1.6 per cent; by contrast, the decade's first five years saw them rising at an annual 17 per cent.

At first sight, there may be two ways of interpreting the situation: one apocalyptic, the other more sympatbetic to IBM. The first view, associated with US consulting gurus like Regis McKenna, says that the largest computer vendors are increasingly vulnerable to two factors: the industry's decreasing cost of entry, and technology-driven fragmentation of computer markets. The underperformance of IBM's stock since 1984, and the fact that its operating margins have fallen from an average of 33 per cent in 1981-4 to perhaps 23 per cent now, are just the first signs of its loss of dominance.

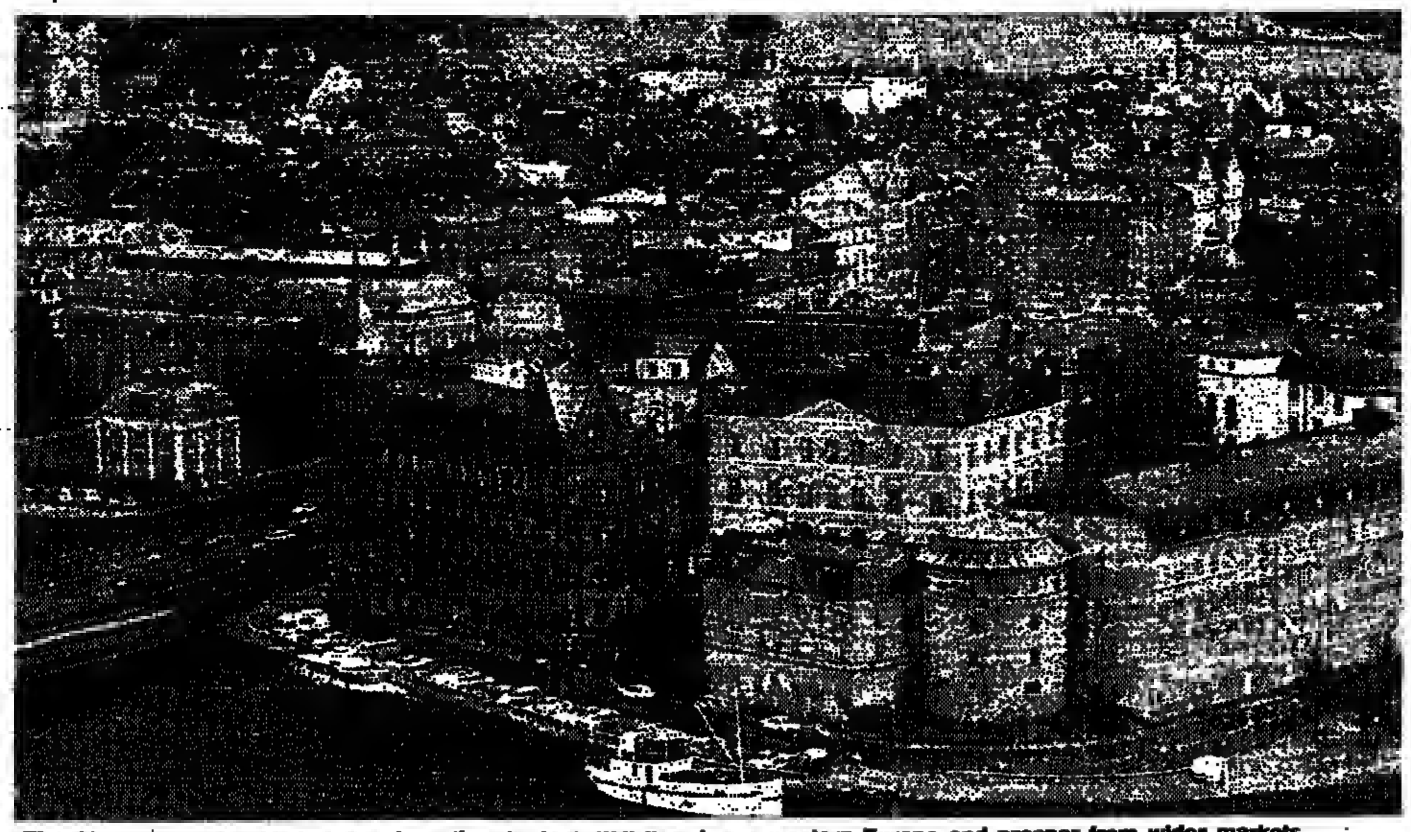
Yet it may be that IBM and its shareholders are merely passing through an adjustmeot phase, before its $5bn-a-year investment programme, its huge staff reorganisations and new products such as the Summit supercomputer dne in the 1990s bear fruit. Doubtless the truth is between these extremes: but the whole debate snddenly makes questions about the future of GEC or the National Westminster Bank seem parochial.

SECTION III

FINANCIAL TIMES SURVEY



The debates about Sweden's future prosperity have raised questions about its traditionally cautious approach based on consensus. Some of these earlier methods, writes **Robert Taylor,** may no longer be adequate to resolve economic and political problems



The Old Town of Stockholm seen from the city hall: Will it embrace western Europe and prosper from wider markets

SWEDEN

CONTENTS

KEY FACTS

Area: 449.964 sq km
Population: 8.46m
Prime Minister: Ingvar Carlsson
Real GDP growth: 1988, 2%; 1987, 2.4%; 1978-88, 2%
GDP growth per capita: 1988, \$21,095
1987 Purchasing power parities: 13,771; West Germany, 13,323; Norway, 15,405
Inflation: 1988, 5.8%; 1989, 6.5% (May); 1978-88, 8%
Merchandise exports: 1988, \$49,327m; 1987, \$44,010m
Merchandise imports: 1988, \$44,579m; 1987, \$39,531
Current account balance: 1988, \$2,549m; 1987, \$1,247m
Reserves excluding gold: \$9.36bn (July 1989)
Unemployment: 1988 1.6%; 1987, 1.9%; Average OECD: 1988, 6.7%; 1987, 7.4%
Government social expenditure % of GDP (1986): 32%; Belgium, 34.9%; UK, 20.6%; Japan, 16%
General Government financial balance % of GDP 1988: +3%; average of OECD, −1.7%
Currency: 100 ORE = SKr1
1988 average exchange rates: \$1 = SKr6.13; £1 = SKr10.92
Main destinations of exports 1987: West Germany, 11.8%; Norway, 10.8%; US, 10.7%; UK, 10.2%
Main source of imports 1987: West Germany, 21.8%; UK, 9.1%; US, 6.9%; Finland, 6.9%
Main exports % of total 1987: machinery (inc. electric) 26.2%; wood product pulp and paper, 18.1%; transport equipment, 17.4%
Main Imports % of total: machinery (inc. electric) 25.2%; transport equipment, 12.4%; chemicals, 9.6%

Undecided over Brussels

SWEDEN is not a country accustomed to sudden disruptive change or making quick decisions. When it moves it does so with caution and usually at the pace of the slowest. The desire for the broadest possible consensus on every issue is deeply engrained in the texture of its national life. In the past such an attitude of mind has served Sweden well.

This autumn it is becoming increasingly clear that this may no longer be enough to ensure the country's future prosperity during the 1990s. Swedes often seem to prefer to find their way round every problem that confronts them or at least soften its impact on their society.

Just over a fortnight ago, Mr Ingvar Carlsson, the Social Democratic Prime Minister, admitted that he often thought about seeking a coalition government with the political parties of the middle in the order to strengthen national unity. Without an overall majority in Parliament, the Social Democrats tend to rely on the communists and others from time to time to push through their policies.

The opposition leaders lost no time in deriding such an idea but on all the fundamental questions on Sweden's public agenda a deliberate effort is being made to organise the widest possible consent across the political spectrum.

The most important underlying problem remains what the future character of Sweden's relations will be with the European Community.

On this, there remains a relatively broad understanding which was agreed by Parliament last year that the country should harmonise itself in accordance with the objectives of the EC's internal market commitment by 1992 but stop short of raising the issue of whether Sweden should actually seek full membership.

This line appears to be holding although Mr Carl Bildt the leader of the pro-EC right-wing Moderate party are keen to push harder in a Brussels direction. Yet even they support Sweden's neutrality in foreign and defence policy between the big power blocks, which Mr Carlsson emphasises as a serious barrier to any prospect of the country becoming a fully-fledged member of the EC, whether or not Austria believes its neutrality is compatible with belonging to the Community.

Neutrality for Sweden was once a pragmatic calculation of national self-interest but it has hardened into an unquestioned dogma. While the rest of Europe is coming to terms with the end of the Cold War, the Swedes remain trapped by the old shibboleths.

Some critics believe that the neutrality issue is a smokescreen to hide deeper Swedish fears about the EC. They regard it as a threat to their affluent, settled way of life because it will bring into question the fundamental principles upon which the country has developed since the 1930s. Moving towards western Europe could mean – they worry – a less redistributive and onerous tax system, cheap alcohol, a diluted welfare state and above all mass unemployment, something that Sweden has not known for over half a century.

Much of Swedish business has made up its own mind of what to do about the EC challenge. The flow of Swedish capital and the growth of acquisitions in the EC over the past two years, particularly by many of the country's large companies has been very strong and it suggests that whatever the politicians do they have no intention of waiting on events but are keen to protect and further their interests in the wider market. As a result, industry and commerce in Sweden is becoming increasingly European in its outlook.

There is no suggestion that official Sweden is actually hostile to the EC. On the contrary, behind the scenes strennous efforts are being made to build up closer contacts with Brussels, so that even if Sweden remains an outsider the country will still be able to exercise an indirect influence over the making of the Community decisions that affect it.

Such a strategy has its uses, though it is hard to believe it will outlast the probable enlargement of the EC after 1993. For the moment, however, it ensures bipartisan calm, in spite Mr Bildt's snipings from the fringe.

Sweden's approach to tax reform reflects a similar hankering for the widest possible agreement.

Under the direction of the country's finance minister Mr Kjell-Olof Feldt the final stage of what the Swedes like to call the biggest tax changes in a century is fast approaching. The purpose is to carry through a transformation in the cumbersome and inequitable Swedish tax system. This will be achieved by the abolition of the state income tax (for most people) but retention of a local income tax at 30 per cent. The detailed proposals will go to Parliament for approval next March and the changes are due to come into force in January 1991, eight months before the next general election. They have been a very long time in gestation. It is nearly a year since Mr Feldt first set out the broad framework of what he wanted and you have to go back to the early 1980s for the beginning of the tax debate.

The most important underlying problem remains the character of Sweden's relations with the Community

Over recent months Sweden has been treated to a wide-ranging informed national discussiou about the details of tax reform. All the political parties and the main interest groups, particularly the powerful trade union movement and the employers, have attempted to exercise an influence over the outcome through the process of bipartisan inquiry that has taken place in Parliament and through lobbying from outside.

Some observers fear that the eventual results will compromise the basic purpose of the tax reform, which will fail to have the necessary incentive effects on work and saving that its originators had hoped for. What is clear is that the tax reform will not ease the tax pressures in Sweden by helping to to reduce the country's overall level of public expenditure which at 57 per cent of GDP remains the highest in the world.

Over environment policy, it is proving much more difficult for the Government to maintain a consensus.

Sweden remains committed to shut all its nuclear power stations by 2010, even though half its present electricity needs are met by the nuclear industry. It is also determined to reduce industrial emissions further over the next few years by tightening up its already rigorous controls as well as maintain a ban on the further expansion of hydroelectric power generation.

As a result, the country's main employers and the big unions in manufacturing industry have been campaigning in a belated rearguard attempt to at least slow down the timetable for nuclear power's phase out, which is supposed to start in 1995.

However, for the moment Mr Carlsson and his Cabinet colleagues, including Mr Feldt, are standing firmly behind Ms Birgitta Dahl, environmental minister, and the present policy.

Next year the ruling Social Democrats meet for their congress and by March 1990 Swedes will know the full cost of the energy policy in terms of higher taxes and prices. The outcome of the nuclear debate that has been raging in Sweden since the early 1970s may, therefore, still be in doubt. Certainly many employers refuse to believe that normally sensible politicians are prepared to deal a blow to Swedish industry for the sake of appeasing the anti-nuclear fanatics

On the continuing liberalisation of the Swedish economy there appears to be much less controversy and readiness to uphold the consensus though this mood may well change in the near future as the pressure grows to ease restrictive measures that impede the freedom of foreign companies and banks operating inside the country.

This summer's abolition of foreign exchange controls by the Central Bank caused a few mutterings in the trade unions but little open bostility, while the continuing relaxation in the once over-regulated stock market and banking system appears to meet with widespread approval.

What ought to concern the Government, however, are the growing signs of deterioration in the overheated Swedish economy and the difficulty of achieving political agreement in Parliament on what to do about it.

In recent weeks there have been a number of rather pessimistic surveys from the banks which predict Sweden's competitiveness will decline over the next few years as the increase in unit labour costs and inflation continue to remain far above the average for the countries of the Organisation for Economic Co-operation and Development. They forsee a growing balance of payments deficit, low growth and modest industrial investment.

Svenska Handelsbanken fears that there will be no soft landing after the years of business expansion since the successful devaluations of 1982 and it believes higher interest rates will have to be imposed to bring the economy to order. A similar diagnosis came last week from Skandinaviska Enskilda, the country's biggest bank, it believes a more restrictive monetary policy will be needed to help cool the economy.

The political problem of managing the Swedish economy is becoming more acute.

Continued on Page 2

Robert Taylor on Sweden's much-praised model

A civilised alternative

SWEDEN is still regarded by many foreigners as the paradigm of the progressive society. This has been so since the depression of the 1930s when overseas admirers on the democratic left saw what was happening in Sweden as confirmation that a civilised alternative did exist to Nazi/Soviet totalitarianism on the one hand and American capitalism on the other.

Many policy-makers in the Soviet Union are showing an interest in the Swedish model, believing that its secrets may help them in their unenviable task of trying to reform the Soviet economy in a more market-orientated direction.

The Swedish model – full employment, a dynamic labour market policy, centralised collective bargaining, an open trade policy and prudent fiscal strategy – continues to win plandits from around the world.

Many on the radical right rubbed their hands with glee at the signs of Swedish industrial sclerosis in the late 1970s and wrote about the crisis of the welfare state, the penal levels of personal taxation and a mushrooming public sector crowding out enterprise. Over the past decade their gloomy forecasts were confounded by Sweden's economic revival.

The country is providing a shining example of successful progressivism. In September, Mr Neil Kinnock, leader of Britain's Labour party on a two day visit, paid tribute to the positive influence Sweden had made to his thinking on the future of democratic socialism. A few days later Prof John Kenneth Galbraith spoke approvingly of the country that practised "Keynesianism before Keynes."

The US journalist Marquis Childs in his Middle Way of 1936 to the Brookings institution report of two years ago, said there has been an almost constant, unbroken critique of Sweden as the country that still confounds its ideological enemies.

To the chagrin of the neo-economic libsrals who have held an intellectual ascendancy in the 1980s Sweden has reconciled full employment with centralised collective bargaining and the biggest trade union penetration of any workforce in the world.

The public welfare state with its universalist principles and generous benefits system co-existed with a private sector industrial revival particularly among the larger companies with competitive global markets.

Nor has Sweden lived up to the nightmare vision of Roland Huntford's The New Totalitarians, pnblished in 1971, in which he portrayed the country as the brave new world of Aldous Huxley's imagination, what he called "a control experiment on an isolated and sterilised subject."

To a surprising degree visitors from abroad select what they like from what they see to bolster their own often pre-conceived opinions. Moreover what they write about modern Sweden often tells us much more about them than the country.

When Mr Norman Fowler, Britain's employment secretary came to Sweden in December 1987 he seized on the workfare scheme for the jobless as something to emulate but turned a blind eye to the country's wider labour market strategy with the commitment to full employment.

Many Soviet economists who travel to Sweden in the search for a cure for the Soviet economic catastrophe admire the social and manpower policies and yet fail to recognise that the country's affluence stems from its success as a market economy almost wholly in the hands of private entrepreneurs.

There is a danger in regarding Sweden as a model that others should try to emulate. It remains a strange and beautiful country which often appears somewhat detached from the rest of the world in its rationalism and stability.

Ths Swedes remain a remarkably self-disciplined and clannish people, who avoid emotional extremes in the search for what they call lagom, a state of mind that means "Just so."

Swedes combine a sense of order without lapsing into a mindless subservience to power with a rather self-righteous earnestness. Perhaps they remain the last people to harbour the illusion that it really is still possible to achieve human perfection through what Professor Karl Popper once called piecemeal social engineering.

It is the rationalism of Sweden, its Fabian approach to the solution of problems through painstaking inquiry and research in the slow, irresistible yearning for consensus and the avoidance of conflict that makes the deepest impression on outsiders. English football supporters in Stockholm were amazed to find, after their arrest for running amuck in the city centre, to find themselves well treated.

They no doubt saw this as a sign of the gullible innocence of the Swedes but the authorities believe there is no empirical evidence to suggest a more brutal approach to punishment for wrong-doing produces better results. In their quiet and matter-of-fact way they may have a point.

The rather clinical, passionless and methodical approach of Sweden reflects a deep, underlying sense of stability among a people united by shared values. To many Americans in particular the country does have a resonance as a kind of lost Arcadia, of a Wisconsin plus social workers.

The trouble is that Sweden as a concept is not really for export. Its has a distinctive character. But this does nothing to deter those admirers who want to transplant many of its institutions into their own more divisivs socisties. The potency of the Swedish myth remains stronger than the complex realities that shape a country going through rapid change.

THE WELFARE STATE

Envied, but under stress

SWEDEN'S welfare state remains the envy of the world but for many Swedes who have to pay high taxes to fund its provisions the system appears to be in crisis.

The public health care system is under enormous stress. Queues at many hospitals for routine hip, eye cataract and coronary arteries have grown to waits of two years or more. The acute shortage of medical staff is closing down many wards, particularly during the summer months. There is also concern at the inadequate supply of places for pre-school children in the public day care centres, a crucial necessity in a society where most women go to work. And care of the old is also causing some anxiety.

An opinion survey carried out in July by the Temo Institute, the opinion poll organisation, discovered a sharp deterioration in the number of people who were satisfied with the condition of the public health service. Only a quarter of those questioned they were happy with it, compared with 56 per cent who took a positive view of the service four years ago.

The shortage of medical staff is closing down many wards

There has been no popular revolt against the welfare state in Sweden. Indeed, only the right-wing Moderate party questions openly whether Sweden can really afford to maintain the services at their present level any longer and calls for a cut in the total size of public expenditure. Recently Mr Bilt and his Moderate party were accused by their former allies the Liberals of wanting to threaten the welfare state by their desire to cut the tax pressures. There does remain widespread support across the social classes for the existing system whatever its defects at present.

On the other hand, even the ruling Social Democrats, the main architects of the public services that employs nearly one in three of all Swedes, admit that additional resources are not available for any increase in the proportion of the gross domestic product spent on social provision.

Within the prevailing consensus there is a general acceptance that while the universalist principles of the welfare state must be upheld, the public services have to become less bureaucratic and much more efficient and cost effective if they are to survive in their present form.

"The focus on public consumption must take account of efficiency as well as equity and of the fact that expenditures cannot keep rising at past rates or even stay at past levels without causing serious distortions in both taxes and expenditures," the Brookings institution warned two years ago.

Unfortunately it is easier – as the Social Democrats have found – to make generalised statements on the subject and yet difficult to carry through specific proposals to increase productivity in the public services and make them more sensitive to the needs of those who use them.

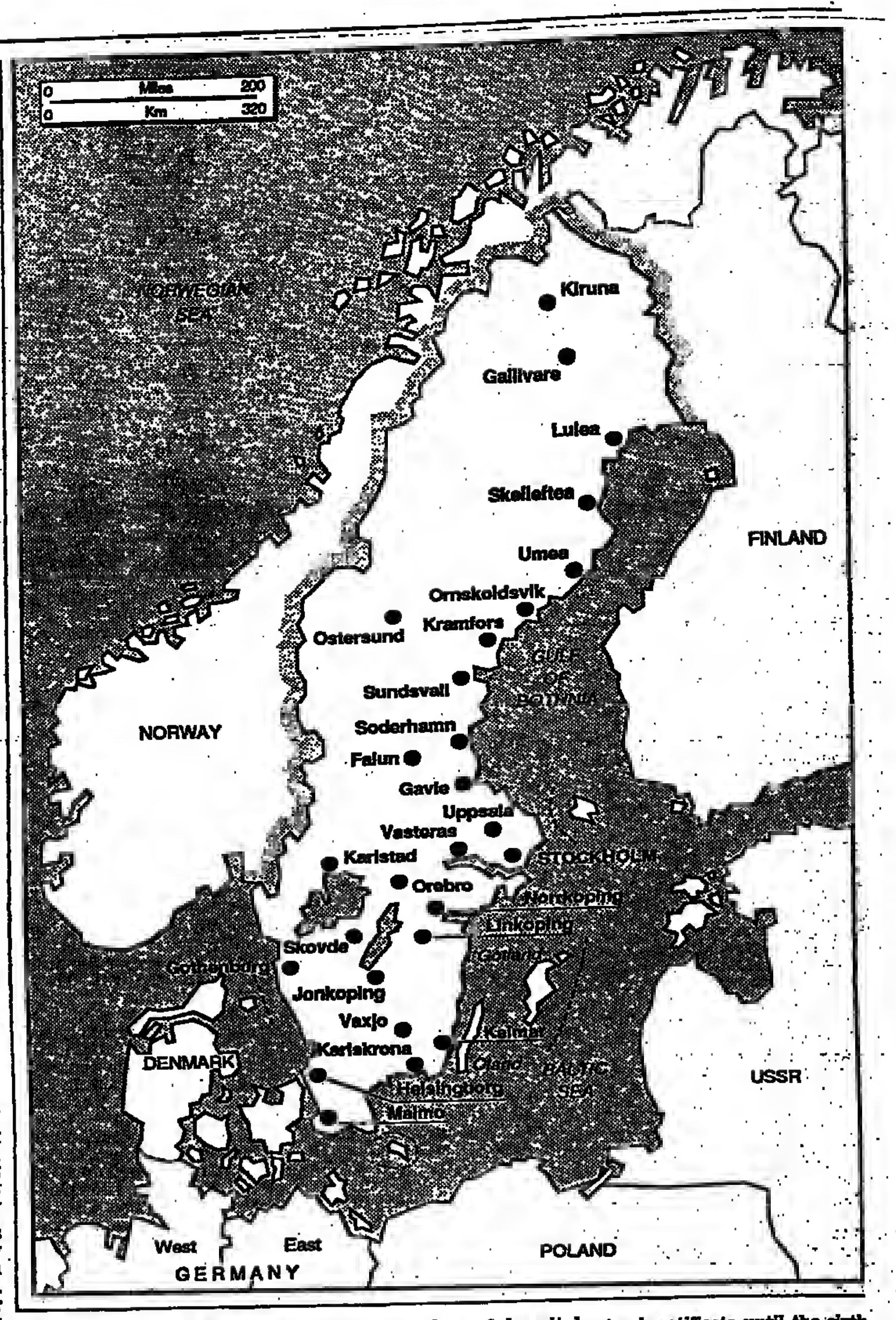
Powerful vested interests remain a serious obstacle to any fundamental reform of Sweden's welfare system. An estimated 55 per cent of Sweden's electorate owe their livelihood to the public sector either as employees or pensioners and that proportion may well climb higher during the 1990s. As Prof Hans Zetterburg, a leading Moderate party ideologue, argues: "Sweden's problem is how shall a minority who deprive their incomes from the private sector protect themselves against a publicly supported political bloc which not only represents a majority of the electorate but can also draw on the sources of power available to the state."

Indeed, Prof Assar Lindbeck, director of the Institute for International Economics at Stockholm University, has reached the conclusion that Sweden no longer has a welfare state in the traditional meaning of that term. In his opinion, it has been transformed into "a free for all transfer state with policy induced redistribution in cash and kind that goes back and forth between practically all population groups."

By international standards the amount of money spent by the public sector on health care remains considerabls. This year an estimated 9.2 per cent of the country's gross domestic product is devoted to it, a total of SKr90bn. This contrasts with the 5 per cent of a much smaller GDP in Sweden 20 years ago. Indeed, since the middle of the 1970s the growth in the health care budget has become inexorable, rising by between 15 to 20 per cent annually at current prices.

No other western nation except the US – devotes as much of its resources to health care, though the figure has fallen since 1985 mainly due to a more stringent attitude by the Ministry of Finance to public sector spending.

At the last count one in every 10 workers (450,000) was employed in the public health service, which is administered by the local authorities, compared with only 3 per cent 30 years ago. But only a minority of them are engaged in direct patient care. There are 24,000 doctors in Sweden but they amount to only 5 per cent of the health employees, while the nurses make up a further 20 per cent.



The majority working in the service are either in administration or ancillary jobs. Indeed, the lack of trained personnel for medical treatment has grown in the past two years and the introduction of more market-related levels of pay has so far not done enough to fill the gaps.

The cumulative years of the health care system in Sweden, however, have produced some impressive achievements.

- Infant mortality is one of the lowest in the world at 6.8 per 1,000 live births compared with 10.4 in the US and 9.4 in the UK. The standards of Sweden's pre-natal and child birth provisions remain very high.
- Life expectancy is also high by international standards. A Swedish man lives on average to the age of 74 and women to 80. This compares with figures of 74 and 77 respectively in the UK. As many as 17 per cent of all Swedes are over the age of 65, and that figure is expected to rise to 20 per cent by the end of the century.
- The number of hospital beds available is also much better than the UK with 15 per 1,000 in the population compared with nine in the UK.
- Swedes regard thsmselves as healthy. As many as three quarters of them told the Temo survey that they were in good shape and it has been estimated that only 8 per cent of the population over a three-month period are admitted to hospital.

There has been a growing national debate about the rapid rise in sickness absenteeism, which is now the highest in the world but the main reason for this appears to lie in the excessively generous social benefit system which enables an ill Swede to get 100 per cent compensation for lost pay from the first day of sickness without the need to produce a doctors' certificate until the sixth day of absence.

Powerful vested interests are an obstacle to reform of the system

It has been estimated that up to 600,000 Swedes are either long-term sick or have taken early retirement because of some physical or psychological disability.

In their programme for the 1990s the Social Democrats appear anxious to carry through what they call a renewal of the public sector not through the introduction of any private forms of provision in the health service or elsewhere but by decentralising the administration and trying to give consumers a greater degree of choice in the services they can use.

The concept of social citizenship remains very strong in Sweden. The radical right may question whether the country can seriously afford to carry such a huge welfare state into the 1990s. They fear that difficult choices will have to be made soon because the existing system will not survive the pressures of rising demand being imposed upon it.

Robert Taylor

Caution and consensus

Continued from Page 1
Earlier this spring, Mr Feldt tried to rush through a somewhat bslated package to dampen consumer demand by raising taxes but he failed to win approval for it from other parties in Parliament or LO, the powerful blue-collar union confederation. Instead, he bowed to the inevitable and agreed to put through a scheme of forced savings that came into force last month which seems most unlikely to make much difference to the economic trends.

Unless the economy is kept in reasonable equilibrium it may prove hard for Sweden to solve its other looming problems of the 1990s over the future of the welfare state, the pension funds crisis and the troubles of industrial restructuring.

There are growing signs that Mr Feldt will be unable to honour his promise to cut income tax by 3 per cent in his January budget because of the high level of wage deals made this year.

As a result there is a prospect of an outbreak of industrial conflict this winter as the trade unions seek to reopen wage settlements already made to compensate their members with more pay for what they will lose by keeping the present level of taxation.

Most other countries in the world would love to have Sweden's troubles for they dwarf into insignificance compared, for example, with what is happening among the country's eastern neighbours across the Baltic Sea.

There is no reason, on past experience, to believe that the Sweden will not be able to sail through them with ease in the next few years. Perceptive politicians such as Mr Carl Bildt fear that his country's problems are more deep rooted than many believe. He wants to see Sweden grow closer to western Europe in thought and practice as soon as possible but he may well be disappointed.

Sweden is a highly organised society whose institutions are flexible enough to change with the times. In their response to external pressures Swedes rely to an extraordinary extent on the all-knowing wisdom of organisation. There is a common saying that when three Swedes meet together in the street and talk about a problem they immediately set up a body to deal with it electing each other as chairman, secretary and treasurer.

As Mr Bildt reflects, unlike any other Europeans the Swedes share a benevolent view of the role of the state in human affairs. They lack any common historical experience of enemy occupation, civil war or bitter class conflict. As a homogeneous people, they have been spared any fundamental division over sovereignty. As a result, they have never questioned the legitimacy of the state.

In the words of the West German journalist Mr Hans Magnus Enzensberger: "The citizens of Sweden regard their institutions with a trust and lack of suspicion that takes good intentions entirely for granted." What he calls those "concrete boxes" that "occupy the centre of every town" mark Sweden out as different.

Perhaps that is why Danes talk about "Asia beginning at Malmo," the southern tip of Sweden. But those institutions are not insensitive layers of bureaucracy imposed on a willing people.

They are also having to face the challenge of external events and the more individualistic approach to life that is helping to unloosen the old rigidities. Sweden may never be at a crossroads or have to decide what to do at the point of a gun but the power elites who run the country should never forget the wise maxim coined by former French prime minister, Mr Pierre Mendes France: "To govern is to choose."

Social democracy rules the political system, but less comfortably

Birthday party answers critics

THE Social Democrats had a great deal to celebrate this year at their 100th birthday party. They have been in government for all but six years since September 1932. No other democratic party of the left or the right has such a record, although, for most of that time, they have ruled in coalition or with the consent of others.

Last September the Social Democrats won their third consecutive general election with 41.2 per cent of the vote. The party has only twice polled more than half the votes, in 1940 and 1968, but has never fallen below 40 per cent of the total since 1930.

This autumn it dropped to about 38 per cent in opinion surveys and this was seen by some observers as a crisis. But compared with the fragmentation of their sister parties in Norway and Denmark, the Swedish party retains an impressive unity of purpose.

To a large extent the party has moulded the character of Swedish society for over 50 years. As Mr Hans Magnus Enzensberger, the West German author wrote: "This is no ordinary political party. It plays a hegemonic role, which means it determines the rules that everyone else must follow for political survival."

The country's political system is based on a social democratic consensus. Sporadic attempts to raise the banner of full-blown market liberalism have not impressed the electorate. The moderate party's leaders dream about becoming the dominant political force by the end of the century and say that social democracy has reached ideological exhaustion.

The Social Democrats have proved highly successful in absorbing often hostile trends in society and turning them to their own advantage. This still seems to be true. The party has recently embarked on a wide-ranging debate of its programme for the 1990s. The proposals, drawn up by an inner working group and published in August, provide a wide-ranging analysis of how the party hopes to develop.

The document is a shrewd compromise that binds together traditional party beliefs, such as the universalist values of the welfare state, with a more modern commitment to individual freedom.

The authors recognise the criticisms from young Swedes who say the party is too much identified with the state apparatus. They argue that it is in danger of treating Sweden's public sector as an end in itself for the perpetuation of vested interests. To the surprise of critics the programme accepts that government cannot meet all the hopes and aspirations of the people it serves.

In the classic Swedish social democratic manner the document seeks to acquire and absorb the liberalising tendencies in society and reshape them in a social democratic

Carlsson: social democracy is faithful to its traditional views

form. The environment issue is a good example. It has been regarded as an issue which social democracy has found it hard to come to terms with.

The party suggests that the environmental issue is of crucial importance not just to young middle class protesters but to working class supporters who work in dirty and accident-prone industries. Bringing the environmental debate into the centre of politics helped the party renew its symbiotic relationship with trade union allies and appeal to the environmental groups.

The party continues to support the pnblic sector bnt admits that it can grow no further. In the blunt words of the programme the slogan should be transformed from "more money for reforms" into "more reforms for the money."

The renewal of Sweden's public service monopolies will come about not through privatising any of its main functions but from the decentralisation of state authority with an emphasis on cost effectiveness and efficiency. By diffusing decision-making through the structures of the welfare state the party hopes to defuse public unease caused by lengthy queues in the hospitals and the shortage of teachers.

They want to safeguard the basic principles that lie behind Sweden's public sector by refining their application. Whether this can be translated into a practical action programme acceptable to the powerful vested interests inside the public sector is unanswered.

Most parties that have long periods in power tend to become arrogant and insensitive and incapable of reforming themselves. There is little doubt that the Social Democrats have developed a kind of *nomenklatura* in the multiplicity of public agencies and bodies but, unlike eastern Europe, merit and ability have usually determined employment.

The sheer breadth of the party's organisation should never be under-estimated. In its strongholds – the small, prosperous industrial towns of central and northern Sweden – it continues to exercise a wide influence in the community through a range of activities. The party is worried, however, about its loss of support in the rootless suburbs of the big cities. But, unlike the British Labour party, the Social Democrats can still attract thousands every May Day to their march through the streets of the capital.

Mr Ingvar Carlsson, Sweden's Prime Minister said: "Social Democracy remains faithful to its traditional view that it is necessary to activate and organise a great number of people in order to change society." The party has a wide range of bodies beyond its youth movement and women's organisation and the LO blue-collar trade union connection.

The Workers' Edncational Association is responsible for about a third of all study circle activites. There are the Young Falcons, Sweden's version of Soviet Young Pioneers; the Verdandi is the 50,000-strong temperance movement; the Correspondence School organises education courses for the party faithful; the Tenants' National Association claims 415,000 members and organises 1.4m rented flats, while the Swedish Pensioners National Organisation (PRO) with 400,000 members claims to be one of the biggest pensioners group of its kind in the world.

Then there is the Folksam, the co-operative insurance movement founded before the First World War. Fonus is a funeral service run by the Labour Movement since 1945 from 240 offices. The co-operative National Association of Tenants' Savings and Building Societies (HSB) has an estimated 600,000 members who collectively own where thay live. The Riksbyggen is a co-operative housing company run by the building trade unions since 1940 and is responsible for about 13 per cent of the dwellings constructed.

Over the years many Swedes have taken advantage of the discount rates on holidays provided through RESO, the movement's travel organisation. It organises two holiday centres in Italy as well as facilities on Sweden's west coast.

The movement's publishing activities should not be forgotten. The so-called A Press is owned by the party and the LO and publishes 25 newspapers. State subsidies since the 1960s ensure the survival of a pluralistic media in Sweden. An estimated 1.5m people read a social democratic paper every day, although about 80 per cent of the Swedish press is controlled by non-Socialist owners. Aftonbladet, the Stockholm evening claims to be the world's biggest social democratic daily paper. The Tiden pnblishing house, hegun in 1912, flourishes as an outlet for left-wing books.

It was Mr Eduard Bernstein, the famous German Social Democrat who remarked: "The goal is nothing, the movement everything." Unlike other Socialist parties the Swedish Social Democrats were never really ostracised from the rest of society. The other institutions of the country did not work to destroy them. Nevertheless they slowly but surely built up a massive edifice without coercion that runs far and wide through every layer of Swedish society and for all their difficulties there is no good reason to suppose that it is about to fall to pieces or even be modified in any fundamental way.

Robert Taylor

SAF: employer's organisation

Trouble at an estate of the realm

A DISPUTE inside Svenska Arbetsgivareforeningen (SAF) one of the country's most venerable institutions, threatens to tear it apart.

SAF, established in 1902 as the employer's counterweight to the growing power of the trade unions, grew into a vital partner in the Swedish model of centralised collective bargaining. It claims to represent 42,000 private companies employing over 1.2m workers – as many as 35 per cent of Sweden's labour force.

During the dominant years of Mr Marcus Wallenberg's inflnence, SAF wielded an authority and discipline over affiliate companies and had easy access to the prime minister's office. Its opinions were usually taken seriously and acted upon. In the highly disciplined and structured world of Swedish industry, SAF could deliver its side of an agreement. It can still impose tough sanctions, including fines, on rebel companies.

The organisation, with its elegant headquarters next door to Stockholm's Grand Hotel, is *reappraising its purpose*. The question at stake is fundamental – what kind of body ought SAF to become in the 1980s?

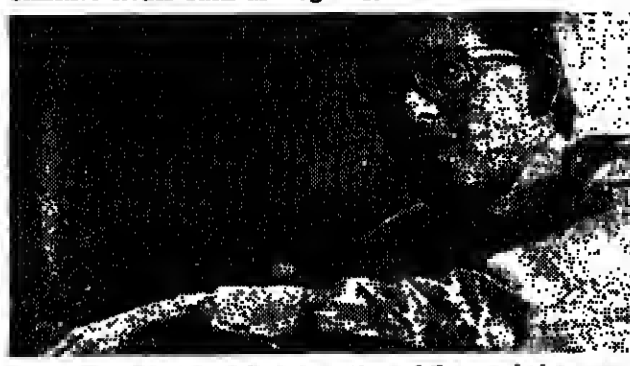
SAF has traditionally been under the Wallenberg influence – the epitome of Swedish corporatism, a respected and respectable estate of the realm since it joined with the LO in 1938 in signing the so-called Saltsjobaden Agreement, the historical peace between capital and labour.

A national deal reached this year between SAF and the LO – much to the horror of engineering employers – is due to last until 1991. But this may well turn out to be the swan song of the old regime.

SAF's new chairman Mr Ulf Laurin, chief executive of PLM the packaging company, wants to push through a radical transformation of the organisation. A member of the Volvo board, he helieves that SAF needs to be a much more aggressive and slimline body, dedicated to the promotion of the market economy.

He believes SAF ought to become far less defensive and take an unashamedly enthusiastic view of the success story of capitalism. Mr Laurin favours abandoning much of SAF's corporatist image and in particular reducing its role as a national collective bargainer. Central wage negotiations no longer make sense in today's increasingly fragmented and competitive labour market, he says, and wages should therefore be negotiated almost entirely at the company level.

He has no liking for LO's wage strategy either because the narrowing of skill differentials between workers in the name of social equality threatens to worsen labour shortage problems. Mr Laurin favours much more decentralisation of company decision-making on sensitive issues such as wage



Laurin: dedicated to the promotion of the market economy

negotiations. He wants to abandon SAF's role of collecting reliahle wage statistics from its affiliate members.

In his assault on the hallowed Swedish model, Mr Laurin is echoing the feelings of many of Sweden's hig employers particularly in the engineering industry, who want to relate pay determination more closely to the demands of the market place. This is very much the viewpoint of Mr Pehr Gyllenhammar at Volvo, the country's most influential chief execntive.

There remains an important difference of opinion about this among employers. Smaller and medium-sized employers often prefer to uphold the traditional centralising system because they believe it is the best way of maintaining labour peace and the levels of pay that they can meet. Moreover, important sectors of industry such as forestry, construction and transport give their strong support to the old SAF strategy of national bargaining, arguing that a centrally negotiated wage agreement helps them to contain the growth in their unit labour costs.

If market forces alone came to dominate the level of wages they had to pay their employees, they fear it would lead to a acceleration in wage push inflation as profitable companies would have to reward their employees.

The simplicity of the SAF-LO system began to disintegrate during the 1970s and recent attempts to shore it up have become increasingly difficult to sustain. VF, the engineering employers federation has been negotiating at industry-wide level with the trade unions since 1983. It thinks thet It needed agreements that took more account of the particular business circumstances of company members. Many engineering employers face severe labour problems with high turnover and absenteeism as well as stagnant productivity and high unit labour costs.

Wage drift – pay negotiated locally on top of the national bargain – has always modified the centralised reality and now as a result of Sweden'a overheated condition it accounts for np to two thirds of the wages earned by the average engineering worker. In other areas, snch as construction, the gap between nationally agreed rates and what workers are paid is even larger, making nonsense of the central wage norm.

Mr Laurin and his supporters believe that the national approach is obsolete because it has become too rigid and fails to reflect the forces of supply and demand that shape Sweden's shopfloor pay attitudes. The time has long gone, they reason, when a handful of negotiators from both sides of industry can sit down in a smoke-filled room and decide what the rates of pay should be for all of the private sector manufacturing employees.

What troubles the old guard in SAF is that their new chairman's radical approach goes far beyond the question of collective bargaining. He makes no secret of his desire to give the organisation a less public profile by removing many of SAF's estimated 300 representatives from a large number of Sweden's public agencies and boards.

In his desire to reduce SAF's political role Mr Laurin reflects the influence of the smaller and medium-sized companies that has grown inside SAF in recent years. It has been calculated that 55 per cent of member companies employ fewer than five workers though together they make up only 3.9 per cent of industry's workforce, whereas 1.9 per cent of members account for 55 per cent of industry's employees.

It is by no means certain that all of Mr Laurin's pungently expressed opinions will prove acceptable to the majority of SAF members. The centralisers inside the organisation can be expected to try and mobilise an effective counter-challenge to the new chairman's strategy.

Thay fear that the Laurin strategy will provoke greater shopfloor instability with a resurgence of wild-cat, unofficial strikes as well as employer lock-outs.

SAF has to find a new director general before the end of the year to work in harness with Mr Laurin. The person should provide a good indicator of how far the organisation intends to move in the direction he has been spelling out.

The outcome of the struggle for power inside SAF, seen by many observers as the latest round in the industrial civil war between the traditional Wallenberg interest and Gyllenhammar, will indicate just how far Swedish industry is prepared to go in abandoning its old corporatist traditions.

Certainly it is difficult to see how a genuine compromise can be achieved between the sides in what is an important debate that throws a revealing light over the changing realities of Swedish capital.

Robert Taylor

A business bonanza has brought record profits in industry, reports **Robert Taylor**

The return of the entrepreneur

SWEDISH industry continnes to be dominated by large and successful companies whose business activities straddle the globe.

In this year's Fortune magazine league table Sweden comes in sixth among the countries outside the US for the number of businesses in its top 500.

Swedish industry with 20 in *the top 500 is far ahead* of Italy (6), Spain (8) and Holland (9). Only Japan, UK, West Germany, France and Canada – in that order – have more large companies than Sweden. This is not bad for a country with a population of approximately 8.5m and whicb lies on the periphery of northern Europe beyond the boundaries of the European Community.

More remarkable is that as many as 13 of the companies named by Fortune can be classified as involved in smokestack industrial production.

The recovery of the Swedisb economy during the 1980s took place in the very areas which the gloomy forecasts of the previous decade bad snggested were on their way out.

It is true that Sweden closed down most of its shipbuilding industry and it slimlined its steel sector as well as textiles. Elsewhere in manufacturing, companies began to pull themeelves out of their difficulties under tbe stimulus of the devaluations of 1981-82 and the improvement in international trading conditions.

"The revival came like a wave that gradually became visible and spread over the country," remembers Mr Gunnar Eliasson, who heads the Swedish Indnstry Research Institute. "It took everybody by surprise."

Between the late 1960s and the present decade it was fashionable among Sweden's business watchers to talk about the ossification of private industry. It was said to have structural rigidities that made it impossihle to innovate and thrive. There were also fears that the irresistible rise of the swollen over-bureancratic monopoly public service sector was eating up national resources and crowding out private enterprise.

The mood has changed in the past few years in what has been a prolonged business bonanza that produced record *profits for Swedish companies* in 1988 of SKr45bn with the best performars in the steel and metal good sector.

The anti-industry culture of the 1960s has gone. The best and brightest are no longer attracted into the public services, which have been thrown onto the defensive.

Entrepreneurial activity has come back into fashion. The impressive growth in the Swedish business press – with the rapid success of Dagens Industri and the glossy weekly Veckans Affärer – is a sign of the times.

The recovery took place in areas that were thought to be on their way out

The Social Democrats worry about what they fear is egoism rather than individualism. The sudden arrival of yuppies in Stockholm raises disapproving eyebrows in high places. Some concern *is also* expressed at the decline of morality among Sweden's business leaders as they seek loopholes in the tax system to sustain their personal fortunes.

There is a new moneyed elite emerging in the country. The rise of financiers that incluse Mr Eric Penser, Mr Thomas Fischer and Mr Peter Gyllenhammar may upset the more settled elements in the business world but it is a good indicator of what a big change has been taking place in Sweden during the 1980s.

The good years have not been mainly due to the antics on the stock market or any dramatic rise of new efficient companies in high technology but much more to the resilience and flexibility displayed by the country's old settled regime of big private companies.

"The main reason for their success in the 1980s has been that they have managed to combine fundamental restructuring in new technologies with short-term production efficiencies," *declares Mr Eliasson. He* talks admiringly of the high standard of competence among what he describes as the teams of management in Swedish industry who pulled it back from decline.

About two thirds of Sweden's top 40 companies were founded before the turn of the century. Companies such as SKF, AGA, Ericsson, and Alfa Laval grew np in the early years of the country's late Industrial revolution and from their origins they looked beyond the small, impoverished home market to the world outside.

In the words of economic historian Lennart Jorberg: "The Swedish export industry came to *be a driving force in* the country's economic growth." even at the expense of the growth in the home market.

Mr Jorberg believes that the rapid expansion of the economy came from the ability of Swedish industry "to satisfy the demand from foreign sources for exports from a limited (capital goods) sector of its economy."

It is no exaggeration to say that a large number of Swedish companies have simply outgrown their own country of origin and rely to a very sub*stantial degree on their* production overseas for continuing profitability.

A study published earlier this year by the Industry Research Institute emphasised the rapid increase in what it called the internationalisation of Swedish industry during recent years.

Between 1960 and 1987, the *study says*, the number of workers employed by subsidiaries of Swedish companies abroad rose from 128,500 to 423,000. Over the same period of time it was calculated that the size of the subsidiary workforce went np from 12 per cent of the number emplnyed in Sweden to as much as 33 per cent. The expansion took place mainly in the big Swedish companies, with the top 10 accounting for nearly 75 per cent of industrial employment and production.

A *substantial part of the* profits being generated in Swedish industry come from its overseas productive activities.

In the past two years the outflow of investment and the dynamic of Swedish company acquisitione overseas has quickened noticeably. Swedish industry is now investing more abroad than at home.

In 1988 the country's net investment abroad went np by as much as 55 per cent to SKr31bn. Much of that figure came in the form of direct investment from the manufacturing sector.

The mood has changed . . . the anti-industry culture of the 1960s has gone

Only the US and France among western industrialised countries bought more. The main area for the heightened activity is understandably the EC for if the Swedisb government seems content to move closer to the EC at a snail'a pace, the big companies have no time to lose.

Last year direct investment from Sweden into the EC donbled to SKr26bn. Britain and Holland are the main beneficiaries of the Swedish business invasion. But the US, Latin America and south east Asia are also areae of the globe where Swedish companies are finding it increasingly attractive to move. An estimated 20 Swedish companies have their *shares traded on foreign stock* markets.

There is no similar dramatic movement in the opposite direction with foreign companies investing in Sweden.

At the last count only 154,000 Swedes work for foreign subsidiaries in Sweden, a mere 10 per cent of the total labour force in industry and not much *better* than the 4.5 per cent recorded 20 years ago.

What inward industrial investments there are into Sweden tend to come from Nordic neighbours Norway and Finland.

For the time being the internationalisation of Swedish industry is still almost something of a one-way street but if the country is serious about its determination to converge with the EC this pattern may change. In the early 1990s as Sweden grows more economically open and thereby attractive to foreign investors.

For the foreseeable future the country's underlying prosperity looks like having to rely on the mature companies that have performed so well in the past.

To judge by their record for positive renewal there should be little douht that most of them will not *falter* in the 1990s. But it may be the EC that enjoys the fruits of Sweden's industrial sncess and not the country where they first grew up.

What cannot be denied is that the big companies of Sweden are ideally structured to do better than many companies *inside the EC* out of the *1992* dynamic.

They can ouly hope that Sweden's non-membership will not produce troublesome obstacles to their business activities after 1992. Otherwise there *must be a real danger – as* some companies have already threatened – of some of them leaving Sweden behind them.

Rising labour costs and soaring energy bills for companies as well as changes in corporate taxation, may all add to the burdens of staying and expanding in Sweden.

Elsewhere, decisions can be *taken in a laid-back fashion* hut not in business life. Whether the politicians realise it, Swedish business is making its terms with the global markets. As so often the companies recognise sooner than others the international realities in which they have to operate.

THE WALLENBERG EMPIRE

A cohesive federation

Wallenberg control in Sweden's leading companies

	Equity %	Voting Rights %
Alfa-Laval	15.2	31.4
Asea	20.0	23.5
Astra	12.5	14.8
Atlas Copco	35.3	35.3
Electrolux	4.0	45.9
Ericsson	4.0	42.5
Incentive	19.3	27.4
Saab-Scania	16.8	21.7
SKF	16.0	34.8
Stora	29.5	33.8

Source: Owners and power in Sweden's listed companies

WHEN A recent survey asked the public who were the most influential figures in Sweden, Peter Wallenberg's name did not appear high on the list. That is strange considering he indirectly controls an estimated *one-third* of the country's gross *national* product.

One explanation for his near invisibility is that he keeps a low profile, shunning media attention in compliance with the family'a motto: Esse no Videri (To be, not to be seen).

Mr Wallenberg has reorganised the industrial empire his *family* controls, bolstering it against domestic raiders and preparing it for pan-European integration.

The Wallenbergs, Sweden's financial dynasty, may no longer have the hegemony they *once* had over the Swedish'e economy, when they treated it as a family fief. But even though a number of independent corporate and financial players have appeared in the last decade to challenge their influence, the Wallenberg Sphere – the group of companies clustered around the family – has probably never been stronger or more powerful.

Challenges mounted by domestic corporate raiders have been seen off

Mr Peter Wallenberg, who when he took over command of the *family's* interests in 1982 was perceived as a weak and inexperienced leader, has confounded the critics.

The federation of Wallenberg companies, instead of unravelling as *predicted*, has become more cohesive, while consolidating its position on the commanding heights overlooking the Swedish corporate landscape.

Challenges mounted by domestic corporate raiders have been seen off and the defensive attitude that marked the gronp'e management through much of the *1980s* has vanished.

Probably no other family in the Western world has wielded as much economic power within their own country as the Wallenbergs have in Sweden. The dozen large companies affiliated with the Wallenberg sphere account for one-third of the value of the Stockholm bourse and dominate the list of Sweden's biggest companies, while being among the world market leaders in their fields.

They include ASEA (electrical generation machinery), SKF (ball bearings), Electrolux (household appliances), Saab-Scania (automotive and aerospace), Stora (paper and pulp), Ericseon (telecommunications), Atlas Copco (mining equipment), Alfa Laval (diary equipment) and Astra (pharmaceuticals). The industrial *holding of the Wallenbergs* generated an estimated total income of SKr21bn on sales of SKr365bn in 1988.

In addition, there is Skandinaviska Enskilds Bank, which in its earlier guise as Stockholms Enskilds Bank served as the foundation for the Wallenberg's rise to power. The bank, founded by Mr Wallenberg's *great grandfather, financed* Sweden's early industrial revolution and gained controlling stakes in some of the country's leading corporations.

These holdings were later transferred to several Wallenberg family foundations when banks were banned from owning companies, primarily Invsstor and Providentia, *which together with the* bank's pension funds, keep the Wallenbergs sphere bound together through their stakes in the member companies.

The Wallenbergs through this complex network of financial Chinese boxes, usually posses the largest block of voting rights in each of their companies, although it is often less than a majority. Control is strengthened by their appointment of executives.

The group's strategy in the *late 1980s has been preparing* tbese companies for stiffer competition in the post-1992 EC internal market. A start has been made on consolidation and rationalisation to create bigger, more efficient companies that will thrive on economies of scale and vertical integration. The most notable example of thes was the grouping of the Wallenberg's various *forestry* interests, including Swedish Match and Papyrus, under Stora to form Europe's biggest paper and pulp concern.

A parallel development is the merging of Wallenberg companies with otber European concerns to create continental giants. The first example of this was tbe link between *ASEA* and *Brown* Boveri of Switzerland last year. Mr Wallenberg suggests other pan-European mergers will follow.

The push for European corporate alliances is the partial response to the Swedish Government's refusal to join the EC. This has been harshly criticised by Mr Wallenberg.

The EC buys half of Sweden's exports and the possible discrimination of goods from non-member countries *would* particularly harm the export-dependent Wallenberg companies.

Wallenberg: near invisibility

But the search for foreign partners is also an acknowledgement that some of Sweden's multinationals can not continue to survive alone in the 1990s.

The recent troubles at Saab, with its car division losses pulling down group profits, is a case in point. A possible merger with Ford or another foreign carmaker is seen as *the only way that Saab* can remain in the auto business without severly damaging the company'e other activities in trucks and aircraft. The fact that most of the Wallenberg companies are mature industries would indicate that at least some are destined for joint ventures with international allies.

One potential threat to the family interests at home is Sweden's promise to harmonise its laws and regulations with the EC, a pledge Mr Wallenberg approves of. The irony is that it could *loosen* the family grip on their companies by opening them np to foreign investment.

The Wallenberg companies, *like most Swedish companies,* are now protected from foreign takeovers by the country's system of differential voting strength of shares.

One *A* sbare, normally restricted to Swedish investors, has 10 times the voting power of a more common B share, which can be purchased by foreigners. The Government has indicated it will lift restrictions on foreign acquisitions of Swedish companies in compliance with similar moves within the EC.

The details of the promised reforms remain vague as Sweden awaits what the EC will decide on the issues, and the final proposals could provide *loopholes* that will keep the Wallenberg interest largely intact.

The trade unions, meanwhile, are campaigning for "one share, one vote" reforms to increase worker ownership of corporations – this would also dilnte the Wallenbergs' power. The unions support continued barriers against foreign takeovers.

Mr Wallenberg has been increasing the family shareholdings in the various companies following a series of attempted *takeover* bids by corporate *raiders* during the 1980s. When Mr Marcus Wallenberg, the legendary figure who expanded the family'e power over five decades, died in 1982, he left the Wallenberg sphere in a vulnerable position. The family'e stakes in the gronp companies were relatively small. This did not matter as long as the Swedish business community was tightly-knit and operated on gentlemanly rules.

But the 1980s saw the rise of a new generation of brash financiers who had made their fortunes on the property and stock markets and who were willing to test the limits of the Wallenberg empire.

They were encouraged by the perception that Mr Wallenberg was incapable of holding the family's interests together. It was an impression that had been created by Mr Marcus Wallenberg's apparent attempt to had over leadership of the group to Mr Pehr Gyllenhammar, the chairman and chief executive officer of Volvo. In one of his last acts, Mr Marcus Wallenberg allowed Volvo to buy important stakes in two Wallenberg companies; Atlas Copco and Stora.

The death of Mr Marcus *Wallenberg set the stage for* a succession struggle between Mr Peter Wallenberg and Mr Gyllenhammar that eventually resulted in Volvo withdrawing from the Wallenberg companies. The victory enhanced the reputation of Mr Peter Wallenberg and he has blocked most other challenges.

Nevertheless, some companies, such as KemaNobel and Boliden, have been detached from the Wallenberg sphere. That more haven't done so is partially because the rise in the Swedish stock market has made it expensive for an outsider to acquire large blocks of shares, while the record profitability of Wallenberg companies has helped finance the *family's* purchase of the minimal amount of new share necessary to bolster their defence.

As long as these conditions last, the family's power seems secure, although the possible change in Swedish ownership rules does introduce a note of uncertainty about the future.

In the meantime, Mr Peter Wallenberg must worry about the future management of the companies. Snch stalwart executives as Mr Hans Werthen of Electrolux and Mr Curt Nicolin of ASEA are facing retirement. Aged 63, Mr Wallenberg must give some thought about his own successinn by grooming his son Jacob and nephew Marcus, both in their mid-30s, to carry on the family legacy.

John Burton

FORESTRY

Horizons clouded by doubts about costs

SWEDISH FORESTRY companies are glancing nervously at their prospects in the 1990s even as they chalk up another year of record profits. Not only is the global rise in pulp and paper products fated to subside eventually, but they face tougher energy and environmental restrictions at home and possible trade friction with a post-1992 European Community.

The Swedish Pulp and Paper *Association claims that the* forestry sector's production cost could rise within the next five years by SKr10bn, a sum eqnivalent to the combined profits made by Sweden's 10 main paper and pulp companies in 1988.

In response to the growing environmental movement, the Government wants to raise energy taxes to encourage conservation and accelerate the phase out of nuclear power by closing down two reactors in the mid-1990s.

Tbe meaenres would increase energy prices and particularly affect the forestry industry. It is the heaviest industrial user of electricity in Sweden, accounting for 15 per cent of total national consumption. The association estimates that the sector's energy costs would double to SKr7bn by 1995.

The production bill would climb further with the planned levying of fines for emission of pollutants, sucb as chlorine, nitric oxide and carbon dioxide. The charges for the release of carbon dioxide could amount to SKr3bn for the forestry industry.

In campaigning against the proposals, the forestry industry is emphasising its importance to the Swedish economy. Forestry prodncts are the country's single largest foreign currency earner. Their net export value in 1988 was SKr48.2bn, three times that earned by the auto exports of Volvo and Saab.

If the government programme on energy and the environment is fully implemented, the forestry industry's *likely response* would *be* to concentrate more on value-added consumer products and establish production facilities in the EC countries, where energy prices are likely to remain stable.

The forestry sector's production cost could rise within the next five years by SKr10bn

These developments are epitomised by Svenska Cellulosa (SCA), Sweden' second biggest forestry concern.

In 1975, SCA began to diversify out of the basic pulp and paper industry by buying Molnlycke, a mannfacturer of paper-based hygiene products such as tissues and nappies. The Molnlycke division accounts for roughly half of SCA's turnover, which is projected to reach SKr26bn

SCA has become a net buyer, although a marginal one, of pulp and is shifting its emphasis towards more expensive paper products. The expected increase in energy costs ia likely to force SCA to reduce its production of newsprint, which requires large amounts of electricity, according to Mr *Sverker Martin-Lof,* SCA managing director.

SCA will begin manufacturing lightweight coated LWC paper instead. This has the twin advantages of fetching a higher price and uses less energy to produce.

SCA has led the way into Europe. The Swedish forestry industry is growing concerned *about future market conditions* after 1992 in the EC, which buys 80 per cent of its exports.

With Sweden refusing to join the Community, the companies are worried that they could be accused of dumping if they sell their products at a lower price within the EC than in Sweden. One way to avoid this is to produce in EC countries.

Last year, SCA *acquired* the French nappy producer Peaudouce for Molnlycke as well as the Italian corrugated board concern Italcarta, in a Skr 5bn buying spree. It gained a controlling interest in Austria's Laakirchen, a prodncer of printing paper, soft tissue and hygienic paper products. It also announced that it would build a *newprint plant* in south west France in co-operation with Cellulose du Pin. SCA later pulled ont of the project, expressing fears about possible overcapacity in worldwide production.

While SCA has been gaining a strong foothold on the continent and strengthening its range of consumer goods and *high-quality paper* products in the process, the two other large forestry concerns, Stora and MoDo, have remained preoccupied at home.

They are digesting the results of a series of acquisitions and mergers that culminated last year and which transformed the forestry industry, giving Stora, SCA and MoDo control of 75 per cent of the sectors'e turnover and profits.

Stora and MoDo are following SCA's strategy of vertical integration while preparing themselves for the future Euro*pean market* by increasing their size in anticipation of strong competition from North American rivals.

Stora's SKr16hn expansion programme, which included the acquisition of Billerund (packing cartons), Papyrus (fine paper) and Swedish Match, has made it Europe'a largest paper and pulp company and the fourth largest in the world.

Forestry is the heaviest industrial user of electricity in Sweden

Its purchase of Swedish Match gave it a strong range of consumer products while providing it with an international marketing and distribution network. But Stora's energies are *still* concentrated on merging its corporate culture with that of Swedish Match and co-ordinating some 15 business areas.

The difficulty of the task is shown by its recent decision to sell off some of Swedish Match's best known consumer prodncts – matches, razors and lighters – business areas with which Stora admitted it had little experience. Once the restructuring process is completed, Stora, which is financially strong, can mount a large expansion into continental Europe, where it lacks a significant production facility.

Financial constraints, however, may prevent MoDo from following suit in the short term. Its purchase of Iggesund, *its paper and pulp affiliate* and Holmen, then Europe's largest newsprint producer, increased its debts, limiting its ability to expand rapidly into Europe.

Its sale of the loss-making Holment Hygiene division to Finland's Metsa-Serla for SKr1.3bn in March lightened its deht load, although it deprived it of an important *consumer prodncts business.* MoDo says it will concentrate on the core business areas of fine paper, newsprint and pulp.

Steeply rising prices for pulp over the past three years have given Swedish forestry companies the financial muscle to embark on their campaign of consolidation and expansion.

Pulp prices should remain *steady over the next two years*, giving the companies the breathing space to complete their reorganisation. Bnt an expected surplus in global pulp production in the early 1990s as capacity is added in the Americas will pose a challenge to the Swedes.

At this point the large North American concerns will turn their ettention to Europe as their home market.

John Burton

RESEARCH and DEVELOPMENT

Sobering thoughts on efficiency

SWEDEN proudly boasts that on a per capita basis and as a percentage of gross national product it spends as much on research and development as the leading industrial powers. Nevertheless, there are indications that Sweden is lagging behind in the technological race.

"A potentially worrying factor is the relatively weak share of high-tech products in industrial output at only about 90 per cent of the OECD average in 1983-1985," the latest OECD survey on the Swedish economy states. After noting that R&D spending accounts for about a quarter of industrial investment, it adds that "it is difficult to avoid the conclnsion that the efficiency of R&D may be particularly low."

A study by the Swedish Federation of Industries also concluded that the results of R&D epending in Sweden were smaller than expected when compared to other countries in terms of increasing exports or expanding production.

These are sobering findings in light of Sweden's impressive *R&D* record. It is estimated that 10 per cent of the country's indnstry is based on Swedish inventions, from ball bearings (SKF) and cream separators (Alfa Laval) to automatic lighthouses (AGA), although most date from the late 19th or early 20th century.

Sweden has gained a reputation for research in such fields as pharmaceuticals, telecommunications, paper production, rohotics, environmental technology and energy conservation measures.

R&D spending has increased rapidly in the last 15 years from 1.6 per cent of GNP in 1973 to 8 per cent in 1987 as Sweden shifted from basic to high-tec industries.

Industry is largely responsible for the jump in spending which in 1987 stood at SKr31bn with Industry accounting for SKr20.4bn. A decads earlier industrial *R&D* spending was only SKr4.7bn. The growth rate of industrial R&D spending has been particularly impressive in the 1980's. It climbed by 16 per *cent between 1979* and 1983 and accelerated to a peak of 26 per cent during 1985/86.

Most of the R&D conducted by industry is confined to the multinationals. The companies that have the 10 biggest R&D budgets such as ASEA, Volvo, Ericsson and Saah-Scania, account for half of total corpo*rate R&D spending.*

These companies produced such commercially successful projects as the Saab 340 commuter airliner and Ericsson AXE digital telephone exchange and mobile telephone systems.

Medical research, which is traditionally Swedan's strongest R&D area, has produced such best-selling drugs as the cardio-vascular agent Seloken as well as developing the heart pacemaker. The wealth of medical knowledge is giving Swe*den a strong position* in biotechnology.

"We are competing in the big nation league," says Mr Kurt Andersson, associate director of the new technologies for the Swedish Federation of Industries. "We have the industrial structure of any major economic power."

Studies such as the OECD report tend to underestimate the extent of Sweden's high-tech prowess because they exclude the automobile industry from their calculations. Swedish car makers accounted for 25 per cent of total corporate R&D investmsnt adds Andersson.

Sweden may be approaching the point of diminishing returns, spreading itself too thin as R&D costs increase.

One exampls is defence research. The Government *spends* more than SKr3bn annually to finance a range of ambitious military R&D programmes. These include what is claimed to be the world's *first multi-role combat aircraft,* the JAS 39 Gripen. It uses a sophisticated "fly by wire" flight system.

The large size of the defence research programme, which also includes corporate funding, in relation to the country's total R&D spending is one reason why research efforts are not proving as productive as they could be.

Industry is largely responsible for the jump in R&D spending

Another large worry is that Swedsn is neglecting basic research as business assumes a growing share of the nation's R&D spending. Swedish companies traditionally have concentrated on product development. *Leaving* it to *universities* to carry out research. "But the university base is eroding due to lack of government spending," says Andersson.

Industry, faced with a shortage of researchers, is contributing to the problem by offering university researchers higher wages, encouraging them to abandon their academic posts for ones in the private sector. The growth of co-operations between universities and companies on researcb projects is also giving university research a more *commercial orientation.*

The Government is well aware of the prohlem. Before becoming prime minister in 1986, Mr Ingvar Carlsson co-ordinated the Government's R&D funding as Minister of the Future. Mr Kjell-Olof Feldt has taken over this responsibility.

The Government is trying to correct the imbalance between basic research and product development by emphasising higher education. This includes the creation of research posts and professorships, in the 1987/90 R&D programme.

Half of its SKr38bn budget is being spent on education, with the rest earmarked for the environment, biotechnology, information technology, polar research and on the humanities. The programme reversed a decline in government R&D spending, but this was partially achieved by forcing the commercial banks to contribute SKr600m. Industry is critical that more money is not being spent on the engineering sciences, forcing companies to divert R&D funding towards *the further education of their* own researchers.

The Government'e efforts may too late. Companies are locating more of their research abroad. One indication of this trend is that the industrial R&D spending growth rate slowed to 6 per cent in 1987.

Volvo, which spends SKr6bn on R&D with 90 per going to Sweden said all its future R&D programmes would be abroad. "We must be closer to our markets." explained Volvo president Mr Gunnar Johansson.

Other companies are following suit as they expand overseas and acquire new production facilities. Climbing R&D costs are also forcing them into collaboration with foreign partners. Ericsson, once known for jealously guarding it research efforts, is now co-operating with Texas Instruments on microchips and IBM on data base services.

Faced with the prospect of "a brain drain" from Sweden, the Government is revising its corporate tax system to reward greater R&D efforts at home. Proposed changes would also encourage the development of emall high-tech companies, which Sweden lacks due to tax rules that favour large, capital-intensive industries.

John Burton

Robert Taylor on the crucial role of the Labour Market Board

Mediator in an economic arena

SWEDEN'S Labour Market Board (The Arbetsmarknadsverket or AMS) is one of the secrets of why the economy functions so well.

Visitors come from all over the world to its headquarters in Solna, a suburb of Stockholm, and leave full of disbelieving admiration for its activities.

AMS is the autonomous public monopoly agency, established in 1948, that is solely responsible for the administration of the country's labour market. From the beginning the tripartite agency has been at the heart of Sweden's economic strategy.

It was given a number of clear objectives — to provide the social means for easing structural change in the economy, organise the labour market to match the aspirations of workers with the needs of employers and above all ensure Sweden upheld its commitment to the concept of full employment.

Alongside centralised national bargaining, it became an integral part of what came to be known as the Swedish model.

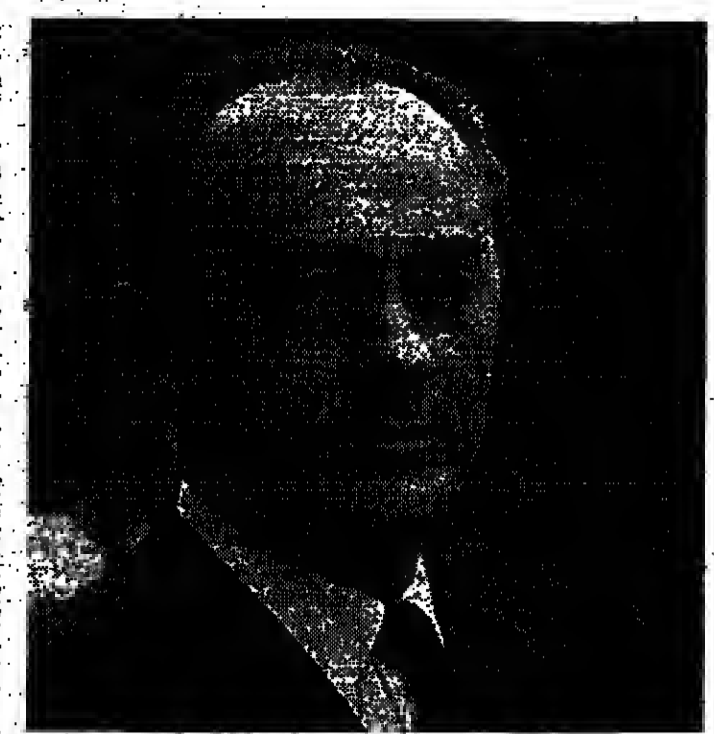
The organisation, which is still run by a board made up of employers and trade union representatives, has not ossified over the years but has managed to adapt itself to the changing needs of the labour market.

Under Mr Alan Larsson, appointed by former Prime Minister Olof Palme in September 1983, it has undergone important reforms, designed to make it responsive to the more entrepreneurial climate of the 1980s.

To the chagrin of the traditionalists, AMS has grown increasingly more sensitive to the wants of employers as much as to the requirements of the labour force.

Mr Larsson denies that this reflects a change in the bias of AMS and prefers to see the organisation as a mediator between the needs of capital and labour. "We have gone back to the original concept of the Founding Fathers," he insists.

There is little doubt that the private companies regard AMS in a much more positive way than they used to. They are welcome to take a direct role through AMS in their own



Larsson: denies any changes in bias at the AMS

recruitment policies.

This has been assisted considerably through the growth of the so-called Expo centres which were introduced two years ago on prime sites in the bigger towns where companies can actively promote themselves in the search for more workers.

"We are eager to make the market work better," declares Mr Larsson. As many as 90 per cent of the job vacancies in Sweden are advertised through AMS and more than two thirds of the employment openings are filled by the service. The computerisation of AMS has given every employer and job-seeker easy access to a wide range of labour market intelligence.

Sitting in front of a computer screen in an AMS local office it is possible to find, with the press of a button, not only the details of the specific jobs on offer anywhere in Sweden but also what the local housing situation is like, what child care centres are available and other useful information for the unemployed.

The organisation has gone through internal change in its structure during the 1980s under Mr Larsson with considerable decentralisation to its 24 county employment boards and the introduction of management by objective techniques to make AMS more efficient and cost effective.

AMS continues to be allocated a large slice of the country'e budget resources to carry out its work. In the 1987-88 financial year it spent SKr23.3bn.

This amounts to as much as 4 per cent of Sweden's gross domestic product. Unlike Britain and other high unemployment countries at least two thirds of that money is spent on active labour market measures, designed to encourage the work ethic.

Mr Larsson takes pride in the fact that Sweden does not go in for what he calls the hand onte approach followed by other European countries who pay their unemployed to stay at home with very nothing to keep them occupied.

Sweden exercises a stringent work availability test to stop people from living off the dole and stiff penalties are exacted involving loss of insurance benefit if any scroungers are found out to be abusing the system.

Mr Larsson says that he favours further changes to increase the supply of labour in the economy by trying to solve Sweden'e chronic absenteeism problems.

He points disapprovingly to payments of SKr60bn this year which the country will pay out in different forms of benefit to safeguard the living standards of adults who are not in the labour market. This compares with SKr20bn to encourage them back into work.

In his opinion the country requires what he calls an incentive structure designed to make it easier for the more than 500,000 Swedes who have vanished from the labour market to return to a working life and to discourage their dependence on the social insurance system.

This will involve the introduction of a dual strategy — the development of schemes to rehabilitate those who have dropped ont of work and changes in the eligibility for benefit that will stop further abuses.

There is no doubt that AMS will be crucial in the 1990s for the economic success of the country.

Over the next decade Sweden is forecast to suffer a relatively steep fall in the number of workers aged 20-24 coming into the labour market and a big increase in the number of workers aged 55 to 59.

As a result there will be a need for a much more adaptable labour market supply side strategies with more flexible training schemes, measures to harness the work potential of the old as well as break down the remaining barriers to equality of job opportunity between the sexes.

The ruling Social Democrats have given their support to the growing demand from the trade unions for a labour market strategy in the 1990s that will rid Sweden of thousands of dead-end, poorly paid and dangerous jobs in the economy.

In the coming restructuring of Swedish industry, the role of AMS promises to be as crucial to its success as the country's most remarkable institution has been in the past to ensure full employment and provide Swedish society with a flexible and well-trained workforce.

LO: trade union confederation

Shifts of power bring conflict

THE LO (Landsorganisationen) Sweden's blue collar trade union confederation is widely admired by trade union leaders around the world for its collective power and influence.

From its turreted headquarters in Stockholm, the LO pervades an almost complacent feeling of benign authority. It represents about 2.3m workers affiliated to 23 unions but its role goes beyond the immediate concerns of the workplace.

There is no exaggeration in suggesting that, at least until the 1980s, the LO through its ideological and organisational connection to the Social Democrats played a crucial part in the running of the country.

During the past 10 years its position is said to have weakened. The decline in the importance of centralised collective bargaining has undermined the primary strength of the LO as the negotiating body for Sweden's blue-collar workers.

The LO's radical demand in the 1970s for the introduction of so-called wage earner funds designed to extend trade union collective ownership into private industry was watered down by the Social Democrats when they brought in a modest scheme after their return to power in September 1982.

Mr Feldt's Ministry of Finance with its liberal economic ideas became the dominant force and eclipsed the traditional LO objective of wage equality and solidarity between workers. In the inner group of the Social Democrats the LO's leader Mr Stig Malm seemed to lack the personal authority of his predecessors.

The LO may be going through a revival. "I believe our power is far greater now than it was five years ago," says Mr Per-Olof Edin, the organisation's chief economist. Certainly the views of Mr Malm and the LO are guaranteed to make the headlines. *Indeed, it often looks as though* the only articulate and effective counter-voice to the Swedish government comes from the LO.

"Our relations with the Social Democrats are like a marriage. We have our quarrels but there is never any talk of divorce," admits Mr Edin.

The LO appears to be in conflict with the Government on a number of important issues. Mr Malm gave the blessing of LO to the general principles of Mr Feldt's tax reform plan last November bnt the LO is unhappy with some of the vital details of what it will mean to their members. LO believes that it looks likely to widen the pattern of income distribution

Malm: fears escalation in energy costs after 1995

to the detriment of the low paid unless the Government takes corrective action by protecting those on below average incomes.

Mr Edin and his colleagues are also rather sceptical of the effects that the tax reformers believe will come from the changes after January 1991. It is unclear just how much influence the LO will exercise over the final package, due for for parliamentary approval next March, but it is certainly exerting pressure to ensure its views are taken into account.

The LO is lining up against the Government's energy policy. Mr Malm expresses a widely felt fear among the blne-collar unions that the present strategy will mean an escalation in energy costs after 1995 and this will have a disastrous impact on jobs in sectors such as heavy engineering and pulp and paper. The LO call for a review of the timetable for the shutdown of the nuclear energy industry has not won the approval of anybody in Mr Carlsson's cabinet. Next spring the LO position may strengthen when the real cost of the energy policy is known.

The LO is not very happy about possible changes being planned by the Government in the social insurance system designed to try and cut back the hnge growth in social expenditure. This has jumped from SKr165bn to SKr215bn between 1987/88 and 1988/89, mainly thanks to the hnge increase in benefit paid out for sickness absenteeism.

The unions want to concentrate on the development of a wide-ranging strategy to make the Swedish work environment less stressful by restructuring industry and abolishing thousands of dirty, monotonous low paid jobs. The LO leaders have voiced their public disquiet at suggestions that the Government will take away a workers' right to sickness benefit from the first day of absence and reduce the size of the benefit that can be paid out to perhaps 80 rather than 100 per cent of post-tax income.

Nor are Mr Edin and his fellow LO economists enthusiastic about the general direction of the Government's economic policy, particularly the Central Bank's high interest rate strategy.

But LO's accumulated discontents seem unlikely to force any kind of showdown with the Social Democrats. Indeed, the LO took a prominent role in the drawing up of the new draft programme for the 1990s. Many of the proposals it contains come straight from the creative minds at work in LO headquarters, particularly the controversial euggestion that Sweden's public pension funds should be allowed the freedom to buy shares on the open market and play an active part in the ownership of industry.

It is true that from 1991 the LO unions locally will no longer enjoy collective affiliation to the party's branches. In future the Social Democrats will be strictly a mass individual membership party with no special organic link to the trade unions. But this change seems most unlikely to undermine the close ties that continue to bind them.

The LO shows no real signs of losing its grip on Swedish society. At the latest estimate it speaks for an estimated 86 per cent of the country's blue-collar workforce. A recent opinion survey carried ont for the LO by the country's central statistical service found that as many as 60 per cent of those questioned believed the LO should maintain its present level of co-operation with the Social Democrats or even strengthen connections with them.

The LO has to operate in a much more complex and structured industrial relations system than its heyday 30 years ago. The number of organisations involved in bargaining have mnltiplied with the growth of white-collar trade unionism and the public services.

Moreover, the pressures on the shopfloor from the new worker individualism have grown more irresistible in recent years with an overheated economy. The LO has a etrong dislike for the growth of worker convertibles — interest free loans that enable company employees to enjoy some of the fruits of the profitability of their companies because they undermine the wage solidarity between workers that remains at the heart of LO ideology.

The LO is very much the custodian of Sweden's People's Home and its leaders look with deep suspicion at liberalising tendencies.

This is not to say that the LO is taking a hostile attitude to the present convergence with the EC but it still remains agnostic on that subject, fearing thet the wage policy, full employment and the welfare state will all be at risk if Sweden moves too close to the rest of western European practice.

Robert Taylor

The bourse's bullish mood comes as a suprise, says **John Burton**

Investors ignore economic signs

THE Stockholm bourse continues to be unexpectedly buoyant with the Veckand Affärer index rising 40 per cent in the past year. What is surprising about the market's performance, one of the best in the world this year, is that it is taking place against the backdrop of a deteriorating domestic economy that bears signs of stagflation.

Moreover, some of the factors that propelled the market upwards last year, such as a wave of merger and acquisitions, are less prominent. There has also been a notable lack of share issues.

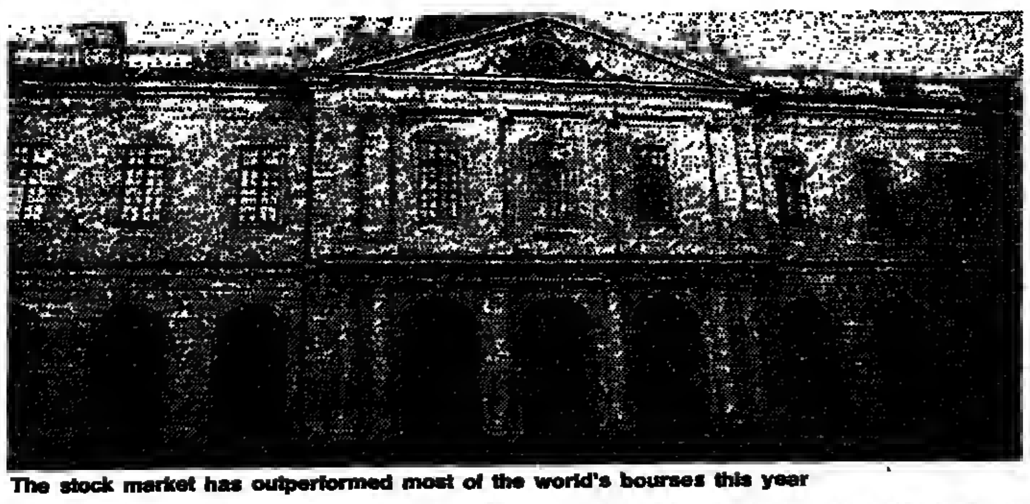
The market's robustness is due to two factors. One is that Sweden's export-oriented multinationals are still reporting good profits due to generally healthy global demand. The other is that institutional investors remain awash with cash, while companies have surplus liquidity. New funds could enter the market with the possibility that the first three national pension funds will soon be able to buy shares.

The bull market should bolster the bourse's confidence in its ability to prosper as the regulations that protected it come down. The bourse, for example, benefited from strict foreign exchange controls, introduced at the start of the Second World War, that helped trap capital and made it difficult for investors to buy foreign shares.

The foreign exchange controls were abolished in January and Swedes were permitted to buy unlimited amounts of foreign securities. The move was part of the Government's effort to move closer to the European Community by harmonising its laws and regulations with it.

During the first half of 1989 the net value of foreign stock purchased by Swedee amounted to SKr10.6bn with most of the buying in Nordic markets as well as New York and London. The outflow of capital has barely made a dent in demand on the Stockholm bourse, although some of the big pension funds have yet to switch their investment abroad.

Although Mr Bengt Ryden, the managing director of the Stockholm bourse, has hailed the ending of the foreign exchange controls as a large step in moving the exchange into the international arena, his ambition to make Stockholm the leading place to trade Swedish equities have been frustrated by a turnover tax.



The stock market has outperformed most of the world's bourses this year

When the Government doubled the tax in 1986 to 2 per cent, foreign investors fled abroad, primarily to London and New York, to avoid the higher transactions cost when trading Swedish shares. It is estimated that more trading of Swedish blue chips is done in London than in Stockholm and 40 per cent of the turnover in Swedish equities is conducted abroad. The effect on the Stockholm bourse is noticeable. Turnover is running at about 15 per cent of capitalisation compared with close to 40 per cent in 1986.

The bourse benefited from strict foreign exchange controls

Although the Government has hinted it will drop the tax, it may not happen until 1991 when tax reform measures are scheduled to go into effect. The political cost of dropping what is regarded as a yuppie tax now would be high since the trade unions are criticising the government for hurting the low-paid through their market-oriented economic policy.

Mr Ryden hopes to attract foreign custom, once the tax is abolished, by making the bourse more modern and efficient. A large step was the introduction in June of an automated trading system, known as Stockholm Automated Exchange (SAX), to replace the existing call-over and after-market trading arrangements.

The SKr60m SAX programme, which will become fully operational in 1990, is initially being used for trading equities. But it can be extended to handle trading in bonds, convertibles and other financial instruments.

Plans call for SAX to serve as the nucleus for a joint information system that would connect the Nordic markets — Stockholm, Helsinki, Oslo and Copenhagen — with subscribers in London and New York via satellite. "It will set the stage for a true Nordic market," says Mr Ryden.

The next logical step, according to Mr Ryden, would be to allow foreign brokers in overseas financial capitals to trade on the Stockholm bourse using the SAX system. Swedish law bans foreign brokers from the exchange, but if the restriction is lifted, Mr Ryden estimates that half of the trading business that has been lost abroad, amounting to SKr30-40bn annually, would return to Stockholm.

Mr Ryden suggests that British brokers who have been approved by the SIB should be granted automatic approval by the Swedish Bank Inspectorate, which rules on the eligibility of all those joining the Stockholm Exchange.

Foreign interest in the Stockholm bourse by both foreign brokers and investors could grow if Sweden reforms its share ownership rules as part of its EC harmonisations programme. Sweden now limits its foreign ownership in companies through such devices as shares with differential voting values and cross-holding arrangements.

A government appointed commission on corporate ownership recommended last year that these anti-takeover defences be eliminated or reduced. Although it supported restrictions that would continue to bar foreigners from acquiring control of large Swedish companies, adoption of their recommendations would allow increased foreign share holding in them.

The Ministry of Industry has said it will study the revision of legislation on foreign ownership, last amended in 1982, although it is uncertain whether it will accept the commission's findings.

A loosening of ownership rules would likely set the stage for higher share prices since most companies are considered undervalued due to their protected status. It would allow foreigners to participate in "concerning" attempts which have become frequent among domestic raiders in recent years. These consist of a raider buying 10 per cent of a company's stock, which under Swedish law gives him a right to board representation and the ability to block acquisition of the company by a third party. The controlling interest in the company is usually willing to buy out the raider at a premium because his continued occupation of this strategic minority position is considered a nuisance.

The Wallenberg companies have become a persistent target of these raids.

Mr Rune Anderson, managing director of Trelleborg, the Swedish industrial group, staged a raid on Wallenberg-contolled SKF last year that reportedly netted him as much as SKr250m.

Mr Sven-Olof Johansson, head of the privately held property company Barkmans, is believed to be following the same tactic in buying up shares of Saab-Scania, another Wallenberg company, in recent months. If the foreign ownership rules are eased, Mr Carlo de Benedetti could be next.

CENTRAL BANK

Out of the heat of political battle

THE Central Bank is one of Sweden's vital institutions at the heart of the country's economic revival of 1980s.

Its governor, Mr Bengt Dennis has pursued a tight monetary policy and pushed ahead with the deregulation of the country's over-protected financial markets since his appointment in September 1982. Mr Dennis wields considerable power and influence over Sweden's economic strategy.

The most important reform at the Central Bank and which carries many longer-term implications for its authority, came into force earlier this year. With hardly any dissent Parliament agreed to change the constitutional position of the governor by extending his terms in office from renewable periods of three years concurrent with the length of each Parliament to five years.

In Mr Dennis's view this will provide the Central Bank with greater independence by removing it above the heat of partisan political battles and strengthening its position in the formulation of Swedish financial policy.

Mr Dennis has displayed considerable agility and forcefulness during his years at the Bank through the complex network of personal relations that bind together Sweden's power elites.

The opening up of Sweden's industrial structure remains a highly political issue

His close friendship with finance minister Mr Kjell-Olof Feldt has been crucial in the country's economic recovery over the past seven years. It dates back to their student days when they were both activists in the Social Democratic student movement.

Mr Dennis does not always win his arguments with the Ministry of Finance. There is no meeting of minds on the existence of Sweden's turnover tax, for example, which has driven a good deal of business away from the country.

There is a genuine convergence of views between them on what needs to be done to keep the Swedish economy healthy. The governor is keen to emphasise the commitment that has been kept to bring back a sense of fiscal rectitude to the country's financial management through a tightening of interest rate policy.

Dennis: wielder of considerable power over economic strategy has pushed ahead with deregulation of the financial markets

He believes that the "one of the best decisions" that the Central Bank and the the Ministry of Finance took was to insist that there would be no government borrowing abroad. Since this was introduced in 1984 it has acted as a corset supporting the disciplines of domestic economic policy.

As Mr Dennis explained to bankers in Brussels earlier this year: "Deficits on current account have to be balanced by the private sector borrowing abroad and this is brought about by the rise in interest rates. The full effect of the deficit is demonstrated fully to everyone."

In his opinion the tough stance on government overseas borrowing has helped to stabilise exchange rate expectations and generated confidence in Sweden's exchange rate policy.

More importantly, it provided the necessary stability within which the country could carry through the necessary deregulation and liberalisation of its financial markets.

The devaluations of 1981 and 1982 reduced Sweden's effective exchange rate and relative unit labour costs by up to 25 per cent and enabled the country's export industries to mount a strong international recovery at a competitive price advantage.

Mr Dennis, since his arrival at the Central Bank, has been an enthusiast for a much more open and less controlled financial system in Sweden. The liberation of the country from excessive regulation began with the introduction of Treasury bills in 1982, a move that was carried out by Mr Dennis's predecessor.

The process of deregulation speeded up two years ago. In August 1987 the Riksbank allowed Swedes to invest in certain foreign shares without having to pay a heavy premium. Three months later a wider ownership of foreign shares by Swedish residents was encouraged, enabling Swedish property and real estate companies to invest abroad.

Since the Social Democratic election victory in September 1988 the pace of reform quickened even faster than Mr Dennis thought was possible.

Last winter the Riksbank announced that foreigners would be allowed to invest in Swedish government bonds for the first time and Swedish investors would be given total freedom to invest in foreign equities and real estate. In July Sweden lifted almost all its remaining foreign exchange controls, imposed as a defensive measure in 1939.

There is not a completely free financial system in Sweden.

Deposits in foreign banks are still forbidden and cross border payments still have to go through an authorised resident bank in order to satisfy the taxation authorities.

From January 1, 1990, however, non-residents will be allowed to own shares in Swedish banks and other financial institutions though an upper limit will be set on the level of foreign participation in banks.

Mr Dennis is determined to extend the deregulation offensive into more sensitive territories with the removal of many of the restrictions that impede the inward movement of foreign investment and foreign ownership of Swedish industry and services.

In particular, he favours allowing foreign companies the opportunity to establish finance and stockbroking companies in Sweden.

The opening up of Sweden's industrial structure to outsiders remains a highly political issue as the recent discussion over the possibility of Ford motor's involvement with the Saab automobile concern has underlined.

The Central Bank has its sights set on the reciprocity principle with the European Community in financial harmonisation in line with Sweden's commitment to implement the so-called four freedoms of the 1992 internal market.

Mr Dennis and his colleagues do not disguise their concern at the overheated condition of the Swedish economy. They are worried about the low rate of economic growth, the distortions created by the tax system and above all the erosion of the country's competitive advantage as a consequence of higher levels of wage push inflation.

Mr Dennis does not always win his arguments with the Ministry of Finance

However, the Central Bank, in much the same way as every other institution in Sweden, has to accept the guiding principle behind all economic policy-making since the 1930s, namely the need to ensure full employment.

Mr Dennis is one of the few bank governors in the western world who has to worry what the consequences of Swedish monetary strategy will be on the labour market.

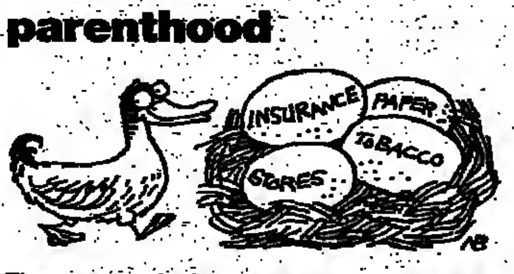
As the governor reminded bankers in Brussels earlier this year: "For Swedes the commitment to full employment amounts to the same kind of political obsession as inflation does for the West Germans. The experience of the unemployment in the 1930s never dies. And this commitment to the cause covers every segment of the Swedish political scene."

Robert Taylor

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 2 1989

INSIDE

Lessons in parenthood

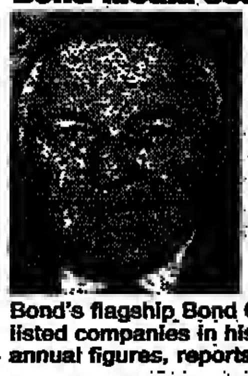


They may not be keen to admit it, but there are some powerful lessons for UK conglomerates to learn from BAT Industries' self-dismemberment, as it fights to stay out of Hoylake's clutches. And it goes beyond that, lighting the way for more narrowly-focused companies of every shape and size. Christopher Lorenz discusses the skills and difficulties involved in corporate parenthood. Page 42

Playing by the rules

The Association of International Bond Dealers is to impose stiff fines and penalties on members which fail to live up to its rules. From December 1, members will face the ultimate penalty of suspension and a suspended firm will be unable to trade in the UK. Officials are also considering public disclosure of a list naming offenders. Page 24

Bond Media sees red



Bond Media, Mr Alan Bond's listed broadcasting company and owner of Australia's top-rating Channel Nine television network, has slithered embarrassingly into the red, suffering both an operating deficit and large extraordinary losses. The figures reinforce expectations of a poor result when Mr Bond's flagship Bond Corporation and other listed companies in his empire report their annual figures, reports Chris Sherwell. Page 24

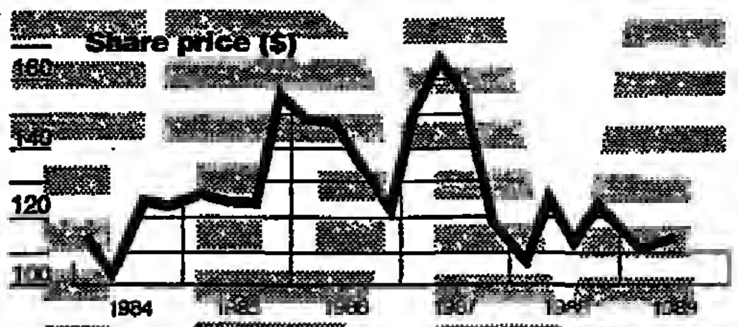
Book war in the islands

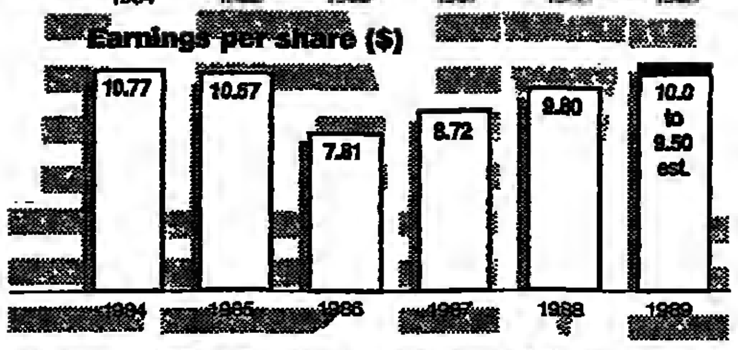
Hostilities between two Channel Island publishing groups have broken out following a £14.6m all share bid by Guiton Group, the Jersey-based newspaper and magazine publishing company, for Guernsey Press. Page 25

Market Statistics

Companies in this section

Why IBM is feeling a little blue





Alan Cane on the company's struggle to maintain growth

Pessimism over the prospects of International Business Machines (IBM) is now endemic on Wall Street. Analysts and investors fear that without further, drastic action the world's largest computer manufacturer will never recover the form which over 30 years has sustained it as the dominant force in data processing. Some are suggesting the only cure for the giant's lumbering performance over the past few years is dismemberment.

All these doubts have resurfaced despite a series of drastic shake-ups pushed through by chairman John Akers since the early 1980s. These would have brought a lesser organisation to its knees, structurally and financially.

They include the shifting of tens of thousands of employees from administrative positions to line jobs, a new marketing structure designed to bring the company closer to its customers, and technological innovations to help the company regain ground lost to smaller, more agile competitors.

Last week, the company, which had 1988 revenues of $59.7bn and pre-tax profits of $5.8bn, told a hastily convened security analysts' meeting in New York that earnings for the third quarter and for the year would fall substantially below their expectations.

It suggested they should revise estimates for 1989 to between $9.50 and $10 a share from $10 to $10.50, implying an outturn for the year no better than that for 1988 when earnings were $9.80 per share.

Mr Stephen Smith, computer specialist with stockbrokers PaineWebber, said the announcement was "a surprise but not too much of a surprise."

It would be the fourth time in five years that IBM had disappointed and an indication that the double digit growth rates which the market had come to expect from the company in the 1970s and early 1980s would be hard to repeat.

A company the size of IBM needed to increase its revenues by at least 6 to 7 per cent a year simply to maintain stable margins, he said. On the latest projections, revenues would grow only 4 to 5 per cent in 1989, well below the industry average of 15 per cent or so.

The reasons IBM gave for the decline were unremarkable in the volatile computer business – technical problems which would delay the introduction of an important high capacity disk memory until 1990, a shift toward leases rather than outright purchases among its customers and currency fluctuations which are expected to cost the group between $2bn and $3bn of revenue across its substantial international business.

Each of these factors by itself might seem only a temporary blip.

Problems with esoteric new technology are common in the computer industry and IBM, which invented high density disk storage, has all the skills to solve the problem.

Leasing, in the long run, gives a better yield than outright sales and the leading leasing companies in the US and Europe are already complaining that their viability is threatened by IBM's aggressiveness. Currency fluctuations in a global marketplace are very much a swings-and-roundabouts affair.

IBM's present predicament, however, is only the tip of the iceberg. The fact is that profound long-term trends in the industry are choking the engine which powered IBM's growth, leaving it vulnerable for the first time in 25 years.

These include: first, a fundamental, irreversible decline in the growth of the mainframe market. IBM's corporate culture is tied to the mainframe market; its marketing efforts finely tuned to selling large machines costing between $1m and $10m on which the margin can be 50 per cent or more.

That market is now largely a mature, replacement market, growing at only 6 per cent a year or so. Principal growth is now in the mid-range and small computer sector where IBM has nowhere near so sure a touch but where growth is still around 15 per cent.

The second trend is the splintering of the computer marketplace into a series of niches, each with its own market leader and in none of which IBM has technological leadership.

So, for example, Compaq Computer leads in high-powered personal computers, while Sun Microsystems is the leader in engineering workstations and Digital Equipment leads in distributed processing.

Third, the "customer" has changed. IBM used to sell directly to data processing managers. Its relationship with these executives secured its position in the large corporate accounts.

Increasingly, however, as the costs of data processing rise seemingly inexorably, buying decisions in large corporations are being referred to the board and to information technology directors who may have no allegiance to IBM.

A "wait and see" attitude on the part of these new customers is a principal cause of the present weakness in the US computer market.

IBM has called the tune and set the standards, for a quarter of a century but technological change is shifting the ground beneath its feet.

Industry pundits are fond of announcing the end of IBM but the world's third largest public company, with possibly the best management of any high technology group, cannot be written off so easily.

Nevertheless, Mr Akers cannot be satisfied that the organisational changes he has instituted so far are having the desired effect and must be wondering what more he can do.

Investors in the group must be asking themselves the same question. IBM's share price has hovered around the $115 mark since 1983.

The devaluation of the United States

By Anthony Harris in Washington

The traffic in Washington is now returning to normal, after a week of double parked stretched limousines; and everyone with financial connections is on a diet, after a week eating enough canapés to relieve a significant famine. This is an odd way to discuss the crisis of the poor countries, and it gets bankers heartily disliked, but they are probably used to that.

In any case, the major talking point last week was not the poverty of the old debtors, but of the new one. The bankers have read the President's lips, and what he is saying is "I'm a poor man." Again and again, the Administration appeared with its begging bowl.

The President addressed the IMF, and asked for support for America's friends; Mr Brady, whose own debt-reduction plan is faltering for lack of financial support, gave a speech on the need for everyone else to spend more on the environment; but the US had no cash to offer. Mr Bush gave a reception to the bankers at the White House to ask them to lend more.

Only one of his guests, from Switzerland, is reported to have been blunt enough to give the obvious response to this; but to judge by soundings at a small sample of the week's 200 odd parties, he was speaking for all of the bankers. The commercial banks are heavily unimpressed by current US policies.

So, it seems, are some of the central bankers and finance ministers of the Group of Seven itself. The official raid on the dollar was not in the first place as fierce as reports suggested. Sony, in a single cash bid, offset three quarters of their combined intervention up to that point. Even while they sold dollars, senior Japanese and German officials were announcing that the exercise would make no lasting difference in the absence of "policy adjustment" – shorthand for higher US taxes.

All this may well encourage investors to bid the dollar up again once the intervention stops – though the trading banks will be reluctant to go long, since they have been caught before. At the end of the week, then, the future of the dollar still looks doubtful; but the devaluation of the US as an economic leader may be less easily reversible.

The Administration is no doubt ruefully aware of this; but it is caught in a trap which is largely, but not entirely, of its own making. Its international leadership is inhibited by weak domestic leadership. The President is reported to be puzzled by his own very high poll ratings, and to fear that they could suddenly evaporate; that is why his policies are so heavily influenced by opinion polls.

In international affairs, this means following some remarkably ill-informed opinions. A recent study shows that the American public believes that foreign aid is the second largest item in the Federal budget, while it is in fact about the smallest. Since they also believe that measures like increased IMF quotas, or debt enhancement, would add to this imagined burden (wrong again), they are against them. US support would be reluctant even if the revenues were available.

When it comes to revenues, the President's tax pledge is of course the major obstacle; but US officials in any case fear that it would need only very modest overkill to end the seven-year-old US expansion. This is the clincher. A recession, or even a sharp slow down, would destroy the whole Bush strategy of growing out of deficit.

Official worries were expressed clearly enough in Mr Richard Darman's recent criticism of Federal Reserve policy; he fears that on present policies the economy will fall short of the required growth rate. The ordinary American consumer feels much the same; it was a fall in consumer confidence which held the leading indicators down to a disappointing 0.3 per cent rise this month. The very weak reports from the purchasing managers, month after month, provide a sinister background noise.

In the short run the consumer probably holds the key to the whole puzzle. The apparent bounce-back in demand in recent figures is due largely to two special factors. Exports have been flattered by the bunching of aircraft deliveries in the second half of the year, due to problems with the latest Boeing 747. More important, the car market has been booming since the beginning of August.

Optimists believe that this is the beginning of a new, higher trend; but pessimists, including many in the motor industry, fear that it is simply a rush to get large discounts and cheap finance while they are still on offer. This should not be a puzzle for very much longer. Most of the cut-price offers expire officially this week (though discounts have a way of making as many final appearances as an ageing opera star, so they may last a bit longer).

The sales of the 1990 models in October and November should give a pretty clear answer; for it seems clear that the expansion cannot keep up speed without a fairly strong car market. The housing slump may be past its worst, but still has grim implications for sales of many household goods; investment growth is slowing, and exports are hardly likely to accelerate from their present annual growth rate of 16 per cent or so.

The unquestionable good news in recent figures has been about inflation. The consumer price index, suggesting a 4.5 per cent annual rate, looks like a lagging indicator, which will soon give a better picture as the steep food price rises of the last twelve months wash out. Meanwhile, the leading indicators – wage rates, input and intermediate prices – all show a sharp slowdown, and some are actually falling.

If these trends are confirmed, the Fed should soon feel free to grant Mr Darman's wish, and let interest rates fall. However, this will not be because the Fed supports the Administration's wish to sustain the growth rate near 3 per cent, but more likely because they think it is in danger of falling below 2 per cent. That gap, between the Administration's strategic target and the Fed's comfort level, contains the whole possibility of growing out of trouble. The Puritan attitude of the Fed (and especially of the Fed's regional presidents) may now be enshrined in law. Rep Stephen Neal, a Southern Democrat, has introduced a Congressional resolution which would direct the Fed to eliminate inflation within five years.

The language is hedged – "inflation will be deemed to be eliminated when the expected rate of change in the general level of prices ceases to be a factor in individual and business decision-making" – but the effect is clear. The Fed would be instructed by Congress, which controls its fate, to ignore Mr Darman. This is hardly the gift Mr Bush would have requested from his new conservative Democratic allies, who helped to vote through the ill-judged cut in capital gains tax.

Economics Notebook

Dutch eyes turn to Frankfurt

Mr Nigel Lawson, the UK Chancellor, will not be the only European finance minister casting an anxious eye towards the next meeting of the Bundesbank's decision-making central council in Frankfurt on Thursday.

While in Washington for last week's annual meeting of the International Monetary Fund, Mr Onno Ruding, the Netherlands finance minister, appealed to Germany not to raise its interest rates. Mr Ruding said he saw no reason for further interest rate increases in Europe.

Admittedly, Mr Ruding is in a rather different position to Mr Lawson. Inflation in the Netherlands is down to around 1 per cent at an annual rate. But his complaint that a further rise in West German rates would "punish the good guys for good behaviour" indicated wider concern among the smaller European Community countries that Germany's anti-inflationary zeal may be getting the better of its judgment.

Mr Ruding, whose counter inflationary credentials are second to none, believes Europe is now over the worst of its recent inflationary surge.

However, it remains to be seen whether his remarks will have any effect on the proudly independent Bundesbank council. In discussing interest rate policy, the council could decide to put domestic considerations, such as fear of an inflationary wage round, ahead of the sensibilities of other countries.

Much will depend on foreign exchange market developments between now and Thursday. But it must never be forgotten, that the Bundesbank's internationally minded Frankfurt-based directorate is outnumbered by nearly two to one in the council by the heads of the German domestically-oriented regional central banks.

Although West Germany fielded a massive 78 strong delegation for the IMF-World Bank meetings, there was only one "backwoodsman", or regional central banker, in the party.

Green Progress

Industrialised and developing countries have made useful progress towards preserving planet Earth from environmental destruction.

The joint IMF-World Bank development committee agreed last week that a co-operative effort was required by both the developed and developing countries to address the critical problem of pollution.

This agreement among ministers representing the Third World and industrialised countries is not as banal as it might sound. There has been a great deal of suspicion among developing nations that the sudden enthusiasm for the environment in the developed world could condemn the Third World to increased poverty and slower growth.

Viewed from Western Europe, the burning of the Amazon rain forests may look the height of folly. But in a country like Brazil, saddled with a rapidly rising population and huge problems of poverty and debt, such Western concern can easily appear as bossiness and unwarranted interference in a nation's sovereign affairs by countries that have grown rich on the strength of past pollution.

The development committee communique managed to reconcile these differences. It recognised that the bulk of pollution so far stemmed from industrial countries. However, all countries were urged to penalise polluters and check the flow of imports and exports of environmentally damaging materials.

The committee took note of the problem of climatic change. It also recognised that care for the environment might require additional financial and technical help for the Third World and requested Western governments, multilateral development institutions and the World Bank to consider such assistance. A good deal of credit for this harmonious outcome must go to Mr Barber Conable, the World Bank President, who stressed the responsibility of the industrialised countries for the environment in a major speech before the the IMF-World Bank meetings.

He pointed out, for example, that North America and Europe "together are responsible for nearly three quarters of the carbon dioxide emissions that contribute to global warming, while accounting for only 8 per cent of the world's population. The developing world, almost 80 per cent of the world's population, is responsible for only 7 per cent of the industrial emission of carbon dioxide." But it is clear that in detailed matters the environment remains an area rich in potential discord between the industrialised and developing countries.

Mr Mailson Ferreira da Nobrega, the Brazilian Finance Minister, warned the West against trying to impose new conditions on financial assistance linked to preserving the environment that would interfere with national priorities in developing countries.

The Group of 24 developing nations, in their statement last week, expressed opposition to the use of environmental concerns "as a disguised instrument for protectionism and for reducing the net flow of financial resources to developing countries."

Peter Norman

THIS WEEK

THE DOLLAR will again be the focus of attention in financial markets this week as they ponder the effects of last week's concerted intervention against that currency, forthcoming US indicators and a possible rise in West German interest rates.

In Britain, however, domestic markets will be eagerly awaiting details of trading in sterling and for what that implies for domestic UK interest rates. An indication of the Bank of England's attempt to support the pound will come tomorrow with publication of the Official Reserves for September (although the figures will not include dealings last Thursday and Friday). The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for an underlying fall of $1bn, compared with August's fall of $405m.

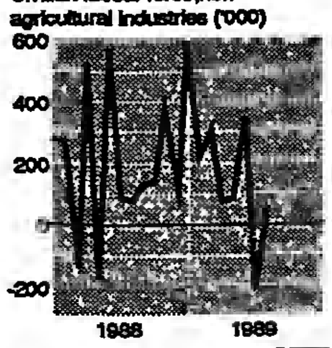
In Berlin the Bundesbank, the West German central bank, holds its fortnightly Council meeting on Thursday. There has been speculation recently that it will decide to raise interest rates, which could aid the world's central banks in driving down the value of the dollar.

In the US, the employment data for September, due on Friday, should provide further evidence of whether the Federal Reserve's tight monetary policy is dampening domestic inflationary pressures. Any sign that employment growth is slowing could trigger speculation that monetary policy might be eased. However, the market is expecting the data to show steady growth in US employment, which should allow the Federal Reserve to keep short-term money market rates at their present level of 9 per cent. The MMS consensus is for a rise of 275,000 in the non-farm payroll, against 110,000 in August.

The September figure, however, will be distorted by over 90,000 communications workers returning to work after an industrial dispute. Minus the effect of this, the data should show employment growing at a rate some way below the average seen so far this year of 230,000 a month.

US Employment

Civilian labour force,non agricultural industries ('000)



The US National Association of Purchasing Managers Report for September is due out today. This survey of the expectations of the buying managers of large US corporations is regarded as an important indicator of business confidence. In August the index stood at 45.2 per cent, and the average of market forecasts is for 47 per cent in September. Anything under 44 per cent, say analysts, would indicated that the US economy is contracting.

Other events and statistics this week include:

Today: US, construction expenditure for August. UK, final retails sales figures and credit business for August.

Tomorrow: US, manufacturing shipments, inventories and new orders for August. West Germany, manufacturing new orders for August.

Wednesday: US, car sales for September. West Germany, visible trade and current account balance for August. UK, housing starts and completions for August.

Thursday: UK, personal income and expenditure for second quarter, new car sales for September. West Germany, unemployment for September.

Friday: US, consumer credit for August.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Bankers dissect water financings

IN THE absence of much else to talk about, banks seem to have spent most of last week conducting rigorous post-mortems on the water authority financings. In particular, there was plenty of comment on National Westminster Bank's handling of North West Water's £1.5bn facility.

According to NatWest, the deal went smoothly enough. It was completed and signed well on time and a list of 34 participants, including underwriters, was published last week. NatWest said it concentrated on high-quality names and was happy with the facility, although it admitted it was not over-subscribed.

Other banks told a different story, suggesting NatWest was well short of the target. They pointed to administrative inefficiencies and claimed that some underwriters had ended up with far larger chunks of the deal than they had wanted.

As much as there was a general feeling, it was that the North West deal was among the slowest of the water company facilities. What remains unclear is whether this was because of problems unique to the facility, or whether it had more to do with the peculiar nature of raising of so much capital as nine deals hit the market.

Few critics thought the North West pricing was wrong, nor did many bankers argue that there was anything wrong with the underlying credit of the borrower. Did NatWest do anything wrong?

The bank said it sent out a limited number of invitations, in contrast to other arrangers.

Indeed, speculation last week had it that some arrangers sent out hundreds of invitations, content to do the deal at any administrative cost. Is a group of 34 quality names better than 75 less well-known names?

Underneath the internecine commentary, there is deep disagreement with banks divided on whether syndicating has become harder or easier. On tha one hand, margins continue to be shaved, suggesting competition for mandates is still intense enough for most deals to be done. On the other, tighter capital adequacy requirements post-Basle are making banks more reluctant to commit their scarce resources to just any old deal.

"We have to work a lot harder for routine business," one banker said last week.

There was, however, little routine business in evidence last week. Barclays announced that Anglian Water had decided to increase its facility from £800m to £1bn after the heavy over-subscription of the original deal, while there were reports that Thames would take an extra £200m after the success of its facility.

Warburg Securities is the arranger of a £100m three-year revolving facility for Equity & Law Home Loans No 3. The margin is 22½ basis points, with a 10 basis point commitment fee. Front-end fees are not disclosed. Warburg said the deal was designed to give the borrower access to the sterling commercial paper market and confirmed it was structured for a 50 per cent capital weighting.

Nippon Credit International launched a 10-year Ecu40m term facility for Istituto Credito Fondario della Toscana, the Tuscan mortgage institute. The margin is 25 basis points over Libor, with a 12½ basis point commitment fee. Front-end fees are 7 basis points. Repayments will be in 20 equal instalments after the first six months, and drawdown is expected to be complete by next April.

A £50m multi-option facility for Senior Engineering Group was announced by Midland Montagu. There is full support from a committed revolving stand-by credit.

Andrew Freeman

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	975.7	0.0	65.0	12,081.3
Prev	2,864.4	0.0	768.3	10,219.4
Other	1,622.0	0.0	579.4	2,388.8
Prev	1,824.2	23.7	639.1	2,835.8
Secondary Market				
US$	15,722.5	902.0	4,537.1	5,234.6
Prev	14,729.6	1,044.0	5,361.3	7,763.3
Other	16,162.7	821.0	4,913.5	26,685.7
Prev	14,837.2	1,019.1	3,394.4	24,685.9

	Cedel	Euroclear	Total
US$	8,693.5	30,724.7	39,418.2
Prev	9,807.3	32,943.0	42,750.3
Other	19,368.1	33,805.0	53,173.1
Prev	19,959.2	29,380.2	49,259.4

Week to September 28, 1989. Source: AIBD

INTERNATIONAL BONDS

Euromarket's growth rate conceals deeper malaise

LAST Wednesday morning a group of otherwise underoccupied Eurobond dealers began making a market in 10-year Yamomoto Steel paper. The issue was unusual, attracting no controversy over pricing or the way it was syndicated. Nor was there discussion as to whether the company was prone to "event risk."

But then Yamomoto Steel's issue had been conducted under the confines of an ITV programme, the first of the Capital City series the night before. And the fictitious paper was just a temporary diversion from the Eurobond market's more pressing occupations.

At the end of the third quarter of 1989 the market is outwardly not unhealthy. The rate of growth may have slowed compared with the first half of the year. Of the $164.9bn worth of transactions completed so far in 1989, 73 per cent, in value terms, was conducted before the end of June.

Given the inclement conditions, though, this is not surprising. The market is probably on target for a record year.

Paradoxically, however, the bald rate of growth figures conceals a deeper malaise. In the latest quarter, concerns about overall profitability finally erupted into heated debate, and some experimentation, on how to reform the more recondite ways of the primary market and restore some profitability to a vast, but increasingly unrewarding, business.

The latest quarterly rankings themselves highlight the intensity of the fight for market share which is at the heart of all the current wrangles.

Once again the Japanese hold on the business is evident – the big four securities houses having captured 38 per cent of the entire market. This is mostly, though not entirely, because of their grip of the equity warrant sector.

Even with a slight fall-off of activity over the summer, equity warrant business now accounts for a third of issues, compared with 18 per cent this time last year.

Volumes in the rest of the market have not held up well. A total of $36bn worth of fixed-rate dollar bonds, for instance, is less than $4bn larger than this time last year.

Other staple currency sectors have actually shrunk. The volume of sterling bond issuance, the second largest sector after dollars, stands at an equivalent $16.5bn for the year to date compared with $20.1bn 12 months previously. There have also been fewer D-Mark deals – $11.2bn worth compared with $17.9bn in 1988.

Consequently, almost all the non-Japanese houses are doing less business than they were last year – in the case of Credit Suisse First Boston, over a third less. This in itself has stimulated some to seek a rethink of market practices.

Meanwhile, Deutsche Bank has squeezed itself into fifth place in the league table (also with less business done than last year) courtesy of $750m assigned for jointly running the books on the World Bank $1.5bn issue – though New York market participants, among others, would presumably dispute the accreditation to the Euromarkets of the entirety of this novel global syndication structure.

Clearly this World Bank bond is the paradigm of the trend towards huge, highly tradeable issues aimed at institutional investors. Across the market, deals have increased dramatically in size in the last 12 months; coincidentally the number of issues completed this time last year is virtually the same as this year, but the 1989 total to date is another $26bn higher in value terms.

The new fixed-price reoffering structure aims to accommodate just this institutionalisation of the market, and indeed was highly successful in the case of the World Bank bond.

But it is too early to see how the efforts at primary market reform will progress, and the novelty value of the World Bank issue makes it a particularly imperfect predictor.

The logic implied in the US-style issuing procedures of shifting away from simply achieving borrowers' funding targets – at any price – and catering to investors' wishes, is appealing and hardly novel.

But borrowers only get into the position of being able to dictate their price when they are courted by a too-plentiful retinue of institutions fighting for their business. In the 27 borrowing days to Christmas (a UBS calculation which involves omitting the two-week run-up to the festivities and days with major US economic releases) it will be seen how realistic is the ambition to reassert a level of profitability by changing syndication practices, and how enduring in practice is the willpower of institutions to resist undercutting one another.

Katharine Campbell

TOP EUROBOND LEAD MANAGERS

Manager	First nine months of 1989 $bn	Rank	%	Issues	First nine months of 1988 $bn	Rank	%	Issues
Nomura	25.3	1	15.47	110	14.8	(1)	10.71	117
Nikko	14.0	2	8.56	44	61.9	(5)	4.45	51
Daiwa	11.9	3	7.28	61	90.0	(4)	6.52	74
Yamaichi	11.4	4	6.98	59	58.1	(6)	4.21	51
Deutsche Bank	79.5	5	4.85	45	98.5	(3)	7.14	65
CSFB	74.1	6	4.53	45	11.7	(2)	8.48	68
Morgan Guaranty	64.3	7	3.93	33	50.9	(7)	3.69	29
Bankers Trust	52.9	8	3.23	63	36.5	(13)	2.64	36
Merrill Lynch	52.4	9	3.20	37	50.2	(8)	3.64	29
Paribas	46.9	10	2.86	33	47.4	(9)	3.43	33
Morgan Stanley	44.3	11	2.71	31	28.1	(15)	2.04	23
Salomon Brothers	42.3	12	2.58	22	36.6	(12)	2.65	22
Goldman Sachs	30.7	13	1.87	24	27.6	(17)	2.00	22
UBS	30.5	14	1.86	25	47.3	(10)	3.43	40
Ind.Bank of Japan	27.9	15	1.70	38	33.8	(14)	2.45	34
SG Warburg	25.1	16	1.53	15	42.8	(11)	3.10	23
Credit Lyonnais	24.5	17	1.50	18	11.0	(30)	0.80	9
Hambros Bank	21.7	18	1.32	37	22.2	(19)	1.61	36
Dresdner Bank	20.7	19	1.27	14	28.0	(16)	2.03	16
Midland Bank	20.2	20	1.23	18	87.1	(33)	0.63	9
Industry totals	†164.90			1175	139.13			1176

† Preliminary Figures - Full credit to book runner

Source: IFR BONDBASE

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Daiwa Securities⧫♦	800	1993	4	3½	100	Daiwa Europe	3.500
Takasago Thermal Eng.⧫♦	60	1993	4	4⅛	100	Yamaichi Int.(Eur)	4.125
Joban Kosan Co.⧫♦(f)	100	1993	4	3⅝	100	Nikko Secs.	3.625
Kokusai Secs.⧫	150	1993	4	(4⅛)	100	Nomura Int.	•
CBO 11 NV†♦(a)	85	2000	11	20bp	100	Morgan Stanley Int.	-
Den Danske Bank♦	30	1991	2	10	101⅛	Bankers Trust	9.357
Hitachi Maxell⧫	60	1993	4	(4⅝)	100	Nikko Secs.(Eur)	•
Koa Fire & Marine Ins.⧫	250	1993	4	(4⅛)	100	Nomura Int.	•
Kansai Int. Airport♦	150	1996	7	9	101⅜	IBJ Int.	8.729
Riedel Env.Tech.♦★★§	20	1999	10	7	100	Tucker Anthony	7.000
Malaysia♦	200	1996	7	9½	101⅜	G.Sachs Int.	9.225
GMBS. Int. No3♦	100	1994	5	9¼	101½	Bankers Trust	8.866
Shinagawa Fuel⧫	100	1993	4	(4⅛)	100	Yamaichi Int.	•
Hyundai Motor(America)♦†	40	1998	9	(g)	100	Man. Hanover(Asia)	-
Mitsui Bk. of Canada♦	50	1999	10	9½	102	Mitsui Fin. Int.	9.186
AUSTRALIAN DOLLARS							
Toronto Dominion(Aus)♦	50	1992	3	16¼	102	Hambros Bank	15.369
CANADIAN DOLLARS							
Bell Canada♦	200	2004	15	10⅞	101⅞	UBS Phillips & Drew	10.620
Oest. Kontrollbk.♦	200	1992	3	10⅝	101.17	JP Morgan	10.151
D-MARKS							
Mory Industries Inc.⧫♦	100	1993	4	1¼	100	Nomura (Eur)	1.250
BHF Fin.(Netherlands)♦	200	1999	10	7¼	122	BHF Bank	4.473
Shinagawa Fuel⧫	40	1994	5	(1⅝)	100	Dresdner Bank	•
Kurosaki Refractories⧫	100	1994	5	(1⅝)	100	Deutsche Bank	•
SWISS FRANCS							
Funai Res. & Dev.★★§(j)	25	1993	-	(⅜)	100	SBC	•
TeraokaSeisakusho★★§♦(k)	60	1994	-	¾	100	Banque Paribas	0.250
Bank of Fukuoka(i)★★§	300	1994	-	(½)	100	UBS	•
Sanko Senzai Kogyo★★⧫	50	1993	-	1¾	100	Citicorp	•
Int. Inv.Holding(e)	50	1994	-	(6⅞)	(99½)	DG Bank (Switz)	•
ECUs							
Asea Brown Boveri♦	150	1994	5	8¾	101⅝	SBC	8.339
Banque Nat. de Paris♦	100	1992	3	9⅛	101.20	BNP Cap Mkts	8.654
Du Pont (El) de Nemours♦	100	1992	3	9	101¼	CSFB	8.511
Credit Local♦(d)	50	1992	3	9¼	101⅞	UBS Phillips & Drew	8.516
STERLING							
Bradford & Bingley♦†	150	1999	10	(c)	100	CSFB	-
SWEDISH KRONA							
AGA AB♦	300	1992	3	11¼	101.45	Svenska Int.	10.880
YEN							
Skopbank♦	2bn	1992	3	7	101⅜	Bankers Trust Int.	6.481
Credit Com.de France♦(b)	1.75bn	1993	4	6.3	101⅝	Morgan Stanley Int.	5.833
Compagnie Bancaire♦	15bn	1994	5	5.45	101⅞	IBJ Int.	5.017
Postipankki♦	2.2bn	1991	2	8¼	101⅛	Nippon Credit Int.	5.639
LUXEMBOURG FRANCS							
EEC★★♦	110	1990	1	7¾	100	Credit Lyonnais	7.750
EEC★★♦	110	1991	2	8	100½	Credit Lyonnais	7.721
EEC★★♦	110	1992	3	8	100¾	Credit Lyonnais	7.711
EEC★★♦	120	1993	4	8	100¾	Credit Lyonnais	7.775
T.V.O. Power Co.★★♦	300	1994	5	8¼	101	Kansallis Int. Bk.	8.000
Lux Air S.A♦	600	1996	7	7¾	100¾	Caisse d'Epargne	7.608
Fiat Fin & Trade★★♦(h)	300	1990	1	8	100.30	B.G.L.	7.677
Fiat Fin & Trade★★♦(h)	800	1991	2	8¼	100.80	B.G.L.	7.803
LIRE							
Kingdom Of Denmark♦	150bn	1993	4	12⅜	101⅜	San Paolo Bank	11.923

♦Final terms, ★★Private Placement, †Floating rate note. ⧫With equity warrants. •Not yet priced. §Convertible. a)20bp over 6-month Libor. b)Redemption currency linked. c) 1/16 over 3 month Libor. d)Fungible with Ecu 150m deal launched March 1st 1989. e)Indicated minimum coupon 6⅞%. Coupon will be increased by ¼% p.a. each time if cash flow shows increase of 50% compared to 1989. Postponed final terms. f)Coupon cut by ½. g) ⅛ over 6-month Libor. h)Issue launched in two tranches. i)Indicated yield to put (3.953%). j)Indicated put to yield (3.522%). k)Put to yield 3.529%. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Investors await base rates outcome

INVESTORS in gilt-edged securities headed for cover last week as short-term considerations about sterling and the future of base rates assumed centre stage in the market's deliberations.

Friday's developments in the money market, where the Bank of England was forced to pull its planned £700m Treasury Bill tender, amounted to the set-up for the playing out of the endgame this week.

Either domestic money markets will capitulate and accept the Bank's view of base rates, or the Government will have to bow to the market's demand for 15 per cent interest rates. Of one thing we can be sure: no one can predict the outcome with any certainty.

The contest is richly textured. International developments vie with domestic considerations; interpreting them is difficult and excessive attention to just one set of factors could be misleading.

Rarely has the market been in possession of so much knowledge about official thinking. It is clear by the actions of the Bank last week that the Government does not want interest rates to rise.

For the Treasury, the weakening in the exchange rate seen last week does not represent a sufficient loosening in monetary conditions to warrant a base rate rise. The sterling index ended last week just 0.2 points weaker over the week to end at 91.4.

The last time the market talked higher interest rates it was looking at DM3.00 and 90 on the index as the trigger. It is possibly unfortunate that with its previous emphasis on the D-Mark rate the authorities missed the opportunity of educating the market to look at the effective rate rather than a simple bilateral rate.

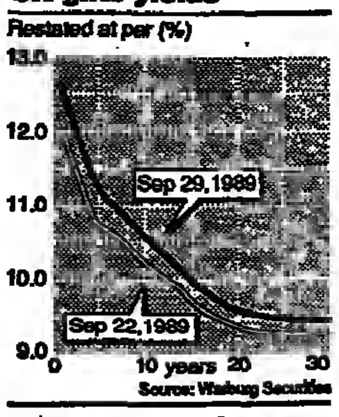
Most of last week's pressure for higher rates came about because of a weakening in the D-Mark/sterling rate. A case could be made for saying that the current mix of exchange rates (sterling strength against tha dollar and weakness against the D-Mark) is ideal for the UK, not only from the vantage point of trade performance but from fighting inflation as well.

The contrary argument is that tha dollar has been depressed artificially by last week's remarkable actions in the foreign exchanges by the central banks of the Group of Seven and friends. A realignment of exchange rates may well see a weaker sterling/dollar rate but a stronger sterling/D-Mark rate. That should leave the sterling/D-Mark watchers with little to complain of.

To add one more doubt to the equation, the reaction of *sterling to an expected rise* in West German interest rates this week could be negligible, if efficient market theory has anything sensible to say about the world. The German money market has discounted almost a full 1 percentage point rise in the Lombard emergency financing rate and that is priced into the currency as well.

UK gilts yields

Restated at per (%)



Source: Warburg Securities

If a case can be made for saying the exchange rate does not indicate a need for higher interest rates, then the judgment is finely balanced if one looks at domestic indicators. Last week's trade numbers were awful by any measure and as much for what they said about July (£2bn) as they did about August.

Mr Nigel Lawson, the Chancellor, indicated as much in Washington last week when be noted the current account deficit was worse than he forecast *at the time of the Budget. Few* of his officials expect the improvement in the current account to be anything more than slow.

There is also some sympathy in the Treasury and the Bank for the view that the British economy is still exhibiting signs of robustness that are surprising, unexpected and unwelcome. Within the Treasury, the mood has swung from a feeling that the economy was slowing rapidly (after July's data) to one where it is slowing less rapidly than expected.

The Treasury is also very disappointed with the behaviour of M0, the narrow money base. It had expected the growth in M0 to be either in its 1 to 5 per cent target range or heading that way.

It is encouraged that the August acceleration in M0 was not carried through to September hut it is still clearly disappointed that annual growth adjusted for last September's postal strike still appears to be in the 5.5 per cent area.

Within official circles there does not appear as yet to be a consensus that interest rates need to be raised for domestic reasons. A run of indicators in September as strong as those in August might be enough to tip the balance.

But as the events of this week could show, the authorities may not have the opportunity to assesa September'a data. If the Bank fails to hold the pound through intervention (and it has always held that it is a short-term measure), the Government'a anti-inflation commitment would look decidedly anaemic if it failed to respond with a rise in base rates.

Simon Holberton

US MONEY AND CREDIT

Inconsistencies in the dollar drama

ARE THE Group of Seven finance ministers finally getting serious about pushing down the dollar? After a drop of 8¼ pfennigs, a clear warning from the G7 and five days of non-stop official dollar sales, the markets feel confident they know the answer. That answer is "no."

This paradox has three apparent implications. Between them these implications could settle the fate of all the world's financial markets for the months, and possibly the years, ahead.

Unfortunately the three possible conclusions from last week's currency dramas are mutually inconsistent, or at least difficult to reconcile.

The easiest conclusion to draw is that investors around the world are more irrepressibly bullish about the dollar today than they have been at any time since 1985.

Rarely has sentiment been so unanimous and so resistant, not only to external events hut even to adverse developments within the market.

Consider the dollar's unaccountable collapse two weeks ago, after the best US trade and inflation figures that anyone could have imagined. Was anybody in the market really frightened? Did the technicians start grumbling about reversal histograms or possible head and shoulders formations?

Far from it. The dollar's sudden setback was "explained" by some wild rumour about a big bank collapsing – or maybe it was an assassination attempt on President Bush. When traders start reaching for rumour mill to explain away their losses, the currency is usually severely overbought. Such over-confident conditions frequently coincide with a major change in trend.

But if the market conditions today seem well-nigh perfect for a serious assault on the dollar, the political will may still be lacking. This was the second conclusion that could be drawn from the G7's activities last week.

Leaving aside for the moment the economic "fundamentals" which may or may not justify a lower dollar, the finance ministers' words and actions left a lot to be desired. While the G7's communiqué was widely praised for its clarity and forcefulness, it actually suffered from the same inner contradictions and ambiguities as the pathetically ineffectual statement the group issued after its meeting six months ago.

Supposedly there was a crucial difference between the two statements. Last spring the ministers said that "a rise in the dollar or an excessive decline" would only be "counter-productive."

This time they went a step further. Not only did they say that "a rise or an excessive decline could adversely affect world economic prospects," they added that "the rise of the dollar in recent months was inconsistent with longer-run economic fundamentals."

It was the last phrase that officials seemed particularly proud of.

At last, the G7 had found the courage to deprecate the dollar'a present level, instead of simply whining about the possibility of future disruptive movements.

But while the ministers may have felt that they were throwing down the gauntlet to the *markets, they still left plenty* of scope for speculators to find comfort in their comments. The promise to avoid an "excessive decline" in the dollar was what caused most of the mischief in the currency markets after the G7's last communiqué, in May. The fact that the finance ministers chose to repeat the promise raises some serious doubts about their commitment to a long-term currency adjustment.

For if stability remains a higher priority than balance of payments' adjustment, official intervention really cannot influence exchange rates in an open world financial system. Instead, the world is likely to see genuine convergence – not just in policies but, more importantly, in economic outcomes.

Above all, this will mean convergence of inflation and interest rates in all the major countries.

But what policymakers, particularly in Germany and Japan, still do not seem to understand is that the terms of this convergence will be dictated not hy the traditional hard-currency countries. On the contrary, the countries with above-average inflation rates, large current account deficits and low productivity will be the ones which attract investment funds.

This brings us, finally, to the third and most important issue raised by the clash between the markets and the G7 this week – "economic fundamentals."

On this the markets and the G7 seem totally to disagree. For the finance ministers, the fundamentals point to a weaker dollar.

The markets think this is exactly wrong. The dollar is fundamentally strong. It will remain strong until the G7 back their intervention with interest rate realignments, the logical conclusion of which will be to equalise interest rates in the US, Germany and perhaps even Japan.

Who, then, is right about the economic fundamentals – the G7 or the markets?

In a world of long-term currency stability, the markets would be clearly right. In such a world there really is just one economic fundamental and that is the rate of interest.

But in a world where coun*tries eventually have to reduce* their trade imhalances, the fundamentals would point in the G7'a favour.

The US current account deficit has now stopped improving and is quite likely to start growing again in the near future. The underlying inflation rate, excluding the effects of recent currency fluctuations, is much higher in the US than in Germany or Japan. The growth of US productivity is relatively low.

The surest way to improve US trade and productivity prospects, and with them the country's long-term inflationary trends, would be to stimulate manufacturing investment with a lower dollar and simultaneously raise national savings with relatively high real interest rates – the standard IMF prescription for deficit countries.

Such high interest rates would be sustainable, provided the dollar returned to a declining trend.

Is this the world the G7 now wants to see? Perhaps not. But just suppose the G7 did switch their priorities to trade adjustment instead of currency stabilisation.

This would amount to an infinitely greater shift in the *"fundamentals"* than any amount of tinkering with official interest rates in Germany, Japan or the US.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.50	8.94	8.80	9.92	8.00
Three-month Treasury bills	7.90	8.01	8.22	9.03	7.15
Six-month Treasury bills	7.87	8.15	8.33	9.08	7.37
Three-month prime CDs	8.85	8.80	8.75	10.35	8.18
30-day Commercial Paper	8.74	8.85	8.83	9.95	8.05
90-day Commercial Paper	8.55	8.65	8.65	10.05	8.14

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	97¾	[illegible]	8.37	8.24	8.25
20-year Treasury	108[illegible]	[illegible]	8.37	8.31	8.31
30-year Treasury	98⅝	[illegible]	8.24	8.19	8.18

Money supply: In the week ended September 18, M1 fell by $1.8bn to $780.8bn.

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 28/9/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	149.73	5.31	149.13	148.13	147.90
Government Bonds	149.93	5.09	149.11	148.22	148.29
Municipal Bonds	151.30	5.56	150.93	150.03	149.69
Govt.-guaranteed Bonds	152.42	5.65	152.05	151.04	150.63
Bank Debentures	143.57	5.30	143.02	141.92	141.67
Corporate Bonds	152.11	5.59	152.04	150.70	149.43
Yen-denom. Foreign Bonds	156.75	6.19	153.49	155.80	153.18
Government 10-year†	5.11		5.20	5.14	4.92

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]				

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on SEPTEMBER 29

Bond Media slithers into the red

By Chris Sherwell in Sydney

BOND MEDIA, Mr Alan Bond's listed broadcasting company and owner of Australia's top-rating Channel Nine television network, has slithered embarrassingly into the red, suffering both an operating deficit and large extraordinary losses.

Figures for the group released late on Friday showed an unexpected equity-accounted net loss for the 12 months to June of A$2.5m (US$1.9m), against a A$40.3m profit the year before, on sales of A$479m, up from A$426m.

Extraordinary losses of A$41.6m worsened the picture. Some A$23m came from the group's ill-conceived purchase from the failed Rothwells finance house of a A$100m "success fee" claimed from Mr Warwick Fairfax for the buy-out of his newspaper group.

Another substantial sum was lost on the group's Perth television station, which was sold after Mr Bond acquired the "West Australian" newspaper, Perth's only morning daily. Media ownership rules disallow cross-ownership of media in one city.

The trading results were seen as stark confirmation of the financial strains now being experienced by Australia's commercial television networks, mostly as a result of the extravagant sums paid for them following the change in media ownership regulations in late 1986.

The rival Channel Ten – also suffering losses – recently changed hands after Mr Frank Lowy's Westfield group took a A$400m write-off, and there have been suggestions that Bond Media and Mr Christopher Skase's Qintex Australia, owner of the Channel Seven network, may have to take a similar write-down on their broadcasting assets.

The figures also reinforced expectations of a poor result when Mr Bond's flagship Bond Corporation and other listed companies in his empire report their annual figures. These were also due by Friday, but Bond Corporation declared last week that it could not meet the deadline. Failure to produce them could lead to suspension by the stock exchange.

Pre-tax reverse at Pioneer International

By Chris Sherwell

THE HEAVY cost of Pioneer International's ill-conceived minerals expansion was confirmed yesterday when the Australian building materials and resources group reported a disappointing earnings performance.

After-tax operating profit for the year to June rose 6 per cent to A$176.2m (US$138m), helped principally by a reduced corporate tax rate.

At the pre-tax level, earnings were off 7.5 per cent, despite a 10 per cent rise in revenues to A$3.94bn.

As expected, Australia's surging domestic economy brought strong improvements in the group's building materials and oil refining and marketing operations. Together these contributed 95 per cent of sales and 92 per cent of profit before interest and tax.

But Pioneer's 42 per cent-owned Giant Resources, the minerals business it bought from Ariadne after the 1987 crash, reported a disastrous A$52m loss plus a A$106m extraordinary write-off, and its directly-owned uranium operation also incurred a loss.

In a major announcement earlier this week, Pioneer announced it was disposing of all its minerals interests during the current year in order to repay debt and invest further in building materials and petroleum activities.

Giant Resources is already negotiating the sale of Canadian mining assets.

A separate announcement yesterday of Giant's losses said the company had suffered from a 30 per cent drop in the gold price, which had depressed gold revenues by 7 per cent, and a 72 per cent increase in interest costs because of spiralling rates on its Australian dollar debt.

The only bright spot among Pioneer's minerals activities was in mineral sands, which was one of its most profitable operations. The only disappointments among its building materials operations were in Hong Kong and Texas.

Pioneer said its earnings were equivalent to 27.3 Australian cents per share, compared with 26.4 cents in the previous year. The group announced a final dividend of 7.5 cents to make a total of 15 cents for the year, up from 13.75 cents.

Pioneer separately itemised its equity-accounted results. These did not include Giant because of the disposal plan, and showed a marginal dip in profits to A$179m from A$182m.

On the stock exchange, Pioneer's shares were heavily traded and rose four cents to A$3.04 in line with the generally firmer market.

Ipma clarifies position on new-issue disclosures

By Andrew Freeman

THE International Primary Markets Association (Ipma), a trade association which oversees new-issue business on the Eurobond market, has told underwriting banks that they are under no legal obligation to disclose how much of a new issue has been distributed in the primary market.

The advice follows speculation that lead managers which fail to inform the market of a substantial unsold position may be in breach of disclosure rules under section 47 of the UK Financial Services Act.

Some banks decided to inform the market of their precise position at the end of syndication in order to avoid possible prosecution for creating a false market. Notably, Baring Brothers declared a £200m domestic debenture for Allied-Lyons to be only 55 per cent placed.

Ipma's legal and documentation committee met last Thursday to consider opinions from leading London solicitors, before concluding that section 47 did not require Eurobond houses to disclose their positions.

The committee noted that such disclosure was not traditional market practice in the primary Eurobond industry. However, it reminded members that if they did issue a statement they must not make false or misleading claims about their deals.

Oerlikon-Bührle expects bigger deficit for year

By William Dullforce in Geneva

OERLIKON-BUEHRLE, the Swiss industrial and armaments group, forecasts a bigger net consolidated loss on its 1989 operations than last year's SFr35.5m ($21.8m) deficit.

Results in the military products and aerospace divisions have been lower than expected and will not reach 1989 targets. Mr Dieter Bührle, chairman, said difficulties on the military side would have a significant negative effect on the group's performance.

During the first eight months group sales increased by 2.4 per cent to SFr2.52bn. Turnover for 1988 as a whole amounted to SFr4.2bn.

In the non-military divisions, which include Bally shoes, engineering and welding products, sales growth varied between 8 and 20 per cent.

Oerlikon-Bührle has been waiting for the go-ahead for the sale of its Adats guided missile system to the US Army but the order has been delayed by the US Congress. Talks on closer co-operation with possible partners on the military side are deadlocked.

Last year Oerlikon-Bührle passed the shareholders' dividend for the third year running. It succeeded in reducing the 1987 net loss of SFr115.8m to SFr35.8m and in May Mr Michael Funk, managing director, was still expecting the group to reach the break-even point in 1989.

AIBD to back rules with stiff penalties

By Andrew Freeman

THE Association of International Bond Dealers (AIBD) is to impose stiff fines and penalties on members which fail to stick to its rules.

From December 1 members will face the ultimate penalty of suspension from the association. A suspended firm will be unable to trade in the UK.

Officials are also considering public disclosure of a list naming offenders. The fines range from SFr25 ($15.6) per trade for late reporting, to SFr10,000 for failing to subscribe to the reporting system altogether.

Under the rules of the Securities Association (TSA), all UK-based members of the AIBD have to report their bond trading within 30 minutes through the AIBD's screen-based Trax trade matching and reporting system.

Mr John Langton, vice-chairman of the AIBD, said: "Those members which have so far ignored Trax or refuse to use it properly may think they are being adept in circumventing the rules, but we have made it perfectly clear that we will take a hard line against them."

The AIBD is a designated investment exchange under the Financial Services Act.

The fines will apply in December, after formal monitoring of the use of Trax in November, aimed at alerting non-complying firms to the potential scale of their liabilities.

On September 4 some 20 UK-based members, about 10 per cent of the total, missed a final TSA deadline for full connection to Trax, and have since been in breach of both TSA and AIBD reporting rules. Last May a large number of firms missed an AIBD deadline, but were treated leniently because many had had technical problems.

The delay in imposing the sanctions is needed to allow the AIBD to add computer programs to Trax to impose the penalties. Technically, under its own rules, AIBD is itself in breach of its own exchange status.

Preussag holds merger talks with Salzgitter

By David Marsh in Bonn

PREUSSAG, the West German energy and metals concern, is negotiating a possible merger with Salzgitter, the state-owned steel company, in a deal which would produce a group with a turnover of around DM27bn ($13.8bn) and employ 70,000 people.

Preussag announced over the weekend that talks were under way on combining the two groups, but said that the "modalities" of any transaction were completely open.

The Bonn Government has given the green light to the talks as a means of privatising Salzgitter, which has profited over the past two years from restructuring and buoyant conditions in its mainstream steel sector.

Announcement of a possible link comes just two months after Salzgitter and the Krupp steel company said they were putting on ice plans to link their activities. A merger between Preussag and Salzgitter – which are both headquartered in the northern state of Lower Saxony – might be politically more simple to implement than a tie-up between Krupp and Salzgitter.

Preussag said that a merger would allow the two companies to pool forces, particularly in environmental protection and other such diversified fields as electronics and information technology. It justified the talks as an attempt to give the companies the scale to compete effectively in the European Community's post-1992 "single market."

The Bonn Finance Ministry has been seeking ways for some time to divest its stake in Salzgitter. Lack of success so far represents an embarrassment in view of the Government's pledge to carry forward its privatisation policies.

The financing of any takeover deal, however, would pose a challenge in view of uncertainties still facing Preussag's earnings. Preussag has faced a number of setbacks from falling natural gas and non-ferrous prices in recent years, but managed to resume dividend payments for 1988 for the first time since 1985. A higher payout for 1989 than 1988's modest DM5 a share seems likely.

Italian insurer plans reshape

By John Wyles in Rome

LA FONDIARIA, the Florentine insurance group controlled by Mr Raul Gardini's Ferruzzi Group, has announced a broadly-based corporate restructuring, together with moves to raise about L550bn ($408m) of fresh capital.

Mr Alfonso Scarpa, managing director, said at the weekend that the new structure would aid Fondiaria's development and could add banking to its current insurance and financial services businesses.

Fondiaria will vest most of its insurance activities and property holdings – worth, at current values, about L1,400bn – in its Italia operation, whose name will be changed to Fondiaria Assicurazione. The overall holding company will handle reinsurance activities for the group and will be quoted on the Milan stock exchange as La Fondiaria SpA, alongside Fondiaria Assicurazione.

Italia's capital will be increased in two phases: the first by a one-for-four issue of 10m shares to raise L100bn from existing shareholders, and the second by an issue of 54.8m shares reserved for Fondiaria SpA in recompense for the assets transferred.

The Milano insurance company, controlled by Fondiaria, will also put its 28.03 per cent of Italia behind a convertible bond linked to warrants carrying Italia stock. These will be offered to existing shareholders on a one-for-one basis, in an exercise expected to raise L450bn.

Fondiaria Assicurazione will rank about fifth in the Italian insurance league, with L1,500bn of premiums, L2,400bn of technical reserves and 550 agencies.

US junk bond issues decline

By Anatole Kaletsky in New York

THERE WAS a sharp drop in US junk bond issues in the third quarter, as credit problems in the high-yield bond market deterred potential investors. Wall Street investment banks were partly compensated for the declining junk bond business by a significant rise in issues of investment-grade corporate bonds, but underwriting fees were still sharply lower than a year ago, on balance.

These were among the main conclusions of the latest quarterly ranking of Wall Street underwriters published by Securities Data Company.

The league table of US underwriters appeared to reflect these structural changes. Goldman Sachs topped the list of underwriters in the third quarter, after ranking second in the previous two quarters. Merrill Lynch, which had led Wall Street in the year to date, was the second biggest in the quarter.

While Drexel Burnham Lambert continued to dominate the junk bond market, its share of high yield bond issues fell to 42.7 per cent, from 49 per cent a year ago.

A total of $71.1bn of securities was issued in the US in the third quarter, a rise of 10 per cent on the $64.7bn sold a year ago. Investment grade debt issues rose 11.6 per cent to $61.6bn, while junk bond and equity offers declined. Only $6.1bn of new equity was sold, down 20.1 per cent on the year before. Junk bond issues fell 24.2 per cent to $5.33bn.

UK COMPANY NEWS

Channel Island publishers in £15m takeover battle

By John Ridding

HOSTILITIES between two Channel Island publishing groups have broken out following a £14.6m all share bid by Guiton Group, the Jersey-based newspaper and magazine publishing company, for Guernsey Press.

Guernsey Press has rejected Guiton's approach as "unwelcome and unsolicited." Mr Ken Rowe, chairman, said that "if successful, the bid would remove control of the Island's only newspaper to Jersey."

But according to Mr Frank Walker, managing director of Guiton Group, "the proposed merger represents a logical step in the development of both companies. They have highly complementary activities."

Guiton argues that growth prospects for channel island companies are currently constrained by local economic policies. The merged companies would create a group of sufficient size to expand into external markets.

Both Guiton Group and Guernsey Press publish the sole newspaper in their respective islands. In addition to publishing the Jersey *Evening Post*, which has a daily circulation of about 25,000 copies, Guiton Group has interests in specialist magazines and newsagents.

In 1988, Guiton Group achieved pre-tax profits of £1.66m, an increase of 19.7 per cent, on sales of £15.18m. The company forecasts that in the current year the total dividend will be raised by 19 per cent to 5p.

The Guernsey Press, whose daily paper has a circulation of about 16,000 copies, saw pre-tax profits fall from £1.03m to £738,000 in the year to the end of February 1989.

Guiton already owns 2.4 per cent of Guernsey Press' shares. It is offering 102 of its own shares for every 100 Guernsey Press shares. Guiton shares currently stand at 250p and the offer values each Guernsey Press share at 255p, compared with its current price of 200p.

River & Mercantile offer oversubscribed

By Sara Webb

RIVER & Mercantile, the fund management group, said that the offer for shares in its Extra Income investment trust was 30 per ceot oversubscribed when it closed on Friday – despite what it described as the present "very bearish investment climate".

The investment trust has appealed to investors partly because of its Personal Equity Plan ties, which enable investors to receive income or capital gains tax free. Over 70 per cent of the applications for ordinary shares in the trust were accompanied by applications to place the shares in one of two PEPs managed by the group.

Normally, private investors who take out a PEP are only permitted to have half of their £4,800 annual maximum allowance in an investment trust or unit trust. However, River & Mercantile found a loophole in the PEP regulations, allowing investors to transfer up to £4,800 worth of investment trust shares into a PEP instead.

The loophole exists because investors are free to transfer shares from new issues into a PEP, provided this occurs within 30 days of the allocation date. The concession was introduced by the government with privatisation issues in mind. However, as investment trusts have shares quoted on the Stock Exchange, the launch of a new trust qualifies as a new issue.

River & Mercantile forecast a gross dividend yield of 10 per cent for the trust in the first year. It said that in view of the fact that the public offer for £7.5m worth of shares was over subscribed, preference would be given to investors who wanted to place their shares in a PEP.

Sherwood advances 36%

TAKING IN Dentex, acquired early this year, the Sherwood Group lifted its pre-tax profit 36 per cent in the half year ended June 30.

This USM-quoted maker of ladies underwear and nightwear, and children's wear achieved £4.14m, against £3.05m, on turnover 52 per cent higher at £33.4m, against £21.96m.

Mr David Parker, the chairman, said all companies performed satisfactorily, especially Dentex. He anticipated the latter making a significant contribution for the year.

He looked forward to "a very positive" second half.

Earnings were 19.1p (18.3p) and the interim dividend is raised to 2.3p (1.6p) on increased capital.

Clondalkin at I£3.7m midway

Clondalkin Group, based in Dublin and engaged in printing and packaging manufacture, increased its profits by I£676,000 to I£3.65m (£3.2m) pre-tax for the opening six months of 1989. Sales for the period rose by I£9m to I£61m.

After tax of I£805,000 (I£742,000) earnings amounted to 6.9p (5.52p). The interim dividend is being lifted to 1.455p (1.347p).

Swallowfield margins rise

Swallowfield, the USM-quoted maker of toiletry and household products in aerosol form, improved its margins in the 24 weeks ended June 17, and thereby lifted its pre-tax profit from £886,000 to £1.13m.

This 27 per cent growth was achieved on turnover ahead 13 per cent to £7.5m (£6.7m). Earnings worked through to 7.6p (6.7p) and there is an interim dividend of 2.2p.

Mr Terry Organ, chairman, said the half year was much in line with expectations.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY.

Interims- American Distrubutor, Barry Birch & Noble, Bilton (Percy), Brewmaker, Gates, Headland, Kleinwort Benson Gilt, Lamont, North British Canadian, Tootal, Topdanmark, Triplevest, Turriff Corp, Watts Blake Bearn.
Finals - Armour Trust, European Leisure, Halstead (James), Ossory Estates, WCRS.

FUTURE DATES

Interims-	
Allied Restaurants	Oct. 17
Cluff Resources	Oct. 19
Jerome (S)	Oct. 11
Johnston	Oct. 11
New Ireland	Oct. 16
Northern Foods	Oct. 18
S & U Stores	Oct. 9
Scottish Mortgage & Trust	Oct. 19
Finals-	
Allied Restaurants	Oct. 17
Britannia Security	Oct. 10
Lawtex	Oct. 4
Savage	Oct. 9
Smiths Industries	Nov. 15

40% show interest in Ferranti demerger

By Terry Dodsworth

ABOUT 40 per cent of the shareholders in Ferranti, the beleaguered UK defence group, have expressed interest in a rescue plan based on demerging the existing company, according to Hill Samuel, the merchant bank which has helped design the scheme.

Hill Samuel and its collaborator, the Glasgow-based Murray Johnstone fund management group, have written to the Ferranti board asking for financial information so that more detailed plans can be drawn up.

Mr Christopher Baker, corporate finance director at Hill Samuel, said at present, the plan has had to be sketched in without the benefit of access to Ferranti's divisional management accounts on which a concrete proposal would need to be based.

Mr Baker said he believed the Ferranti board should see that the scheme is "properly and fully examined" given the support it has received among his institutional shareholders.

The letter, sent to Ferranti on Friday, when the company announced that it would have to *write off £185m because of* suspected fraud, ontlined a three-point plan for recovery.

Under stage one, Ferranti's naval and avionics activities would be brought together in a newly organised company and spun off from the existing group to leave shareholders with holdings in two separate companies.

These naval and avionics operations, mainly based in the UK, would then be merged with another UK defence group to form an organisation with sales of around £800m a year.

The Hill Samuel/Murray Johnstone team has held talks with Thorn EMI on a possible deal to merge Thorn's defence business with Ferranti's.

Birmingham Mint warning as electrical side struggles

By Andrew Bolger

BIRMINGHAM MINT, the coin and medal manufacturer which has diversified into electronics and engineering, has warned of a substantial drop in first half profits. Its shares fell 28p to 134p on Friday.

In the comparative six months ended September 30 1988 the group made £1.62m pre-tax.

Main difficulties were in the electrical components division, which makes contacts for switches. Over the past few months 60 people have been made redundant at the Sheffield factory.

The company also announced the appointment of Mr Harry Balmer as group managing director. Mr Colin Perry, who was chairman and chief executive, will continue as executive chairman.

Mr Perry said most of the troubled division's output went into housing, DIY and electrical appliances: "That's our market – its the worst to be in at the moment. Most of our customers are destocking."

The company said order deferrals in the minting business had cut sales and its Nevin companies, which make electronic display parts, had a weak first half, although orders had now picked up.

British Syphon £23m disposal

By Andrew Hill

BRITISH Syphon Industries, the industrial holding company in which Mr Nathn Ram Puri holds a 25 per cent stake, has sold its paper merchanting interests for about £23.1m cash, including the repayment of internal loans.

Three companies – Fyne Papers, Bennett Paper Sales and a 75 per cent stake in Willow Paper Company – have been sold to Arjomari-Prioux, a quoted French paper making and merchanting group.

Arjomari, which bonght another UK paper wholesaler last year, paid £10.21m for the companies' equity, £2.9m for freehold properties and repaid £10m of internal loans.

The paper merchanting interests represent £44m of British Syphon's £160m annual sales and generate profits of about £1m.

British Syphon is in the strange position of having launched a management buy-out *last November, only to be* prevented from going private by Mr Puri. He and his private industrial group, Melton Medes, held on to about a quarter of British Syphon's shares.

Mr James Philpotts, Melton Medes' chief executive, said: "We welcome anything that reduces borrowings at British Syphon. The deal seems to endorse our view that the buy-out price was too low."

Mr Bryan Morrall, British Syphon's chairman who led the buy-ont team, said there was no possibility of the group trying to buy Mr Puri's minority holding. The buy-ont team holds about 70 per cent of British Syphon and the balance belongs to small shareholders.

British Syphon did not recommend a final dividend in March – the first figures after the buy-out went unconditional – and is unlikely to declare an interim dividend when the half-year results are published in the next fortnight.

Ifico falls by nearly £1m

Prohlems in the property trading subsidiary, Fairview Securities, now disposed of, led Ifico to a setback in profits before tax of £866,000 (£2.17m) for its continued businesses and of £1.3m (£831,000) for discontinued businesses, making £2.17m (£3m) for the year to June 30.

The disposal of Fairview resulted in an extraordinary loss of £5.1m.

The claim against tha company by its principal shareholder, CRC International Finance, had an adverse impact on efforts to secure the group's future by acquisitions.

Group turnover was £11.76m (£11.89m). After tax of £852,000 (£1.31m) and minorities of £142,000 (£126,000) earnings emerged at 4.69p (6.65p) per 25p ordinary. The single dividend is 0.5p, against a total of 4p.

Conrad Contl downturn

CONRAD CONTINENTAL, which designs and sells leather clothing and fashion accessories, suffered a drop in pre-tax profit from £516,000 to £303,000 in the first half of 1989.

Furthermore, in the third quarter the group had been affected by the warm weather and high interest charges, and those unfavourable conditions were expected through to the year-end.

Inclnding Andrea Paul Lingerie, turnover in the half rose 23 per cent to £5.85m (£4.75m). But the profit suffered from the impact of finance costs associated with that acquisition, and the deferred consideration payable for Continental Textiles.

Earnings were 1.49p (2.54p) bnt the interim dividend is maintained at 1p, payable on December 1.

Atlantic Securities

Gross income of Atlantic Securities Trust totalled £1.21m (£470,000) for the six months ended June 30. Pre-tax loss emerged at £80,000 (£432,000) after interest payable of £1.21m (£842,000).

Scott's Restaurant in the black

Scott's Restaurant stayed in the black in the first half of 1989, producing a pre-tax profit of £427,000. That included the disposal of surplus wines from Mirabelle Restaurant, which was sold last year.

In the 1988 half year the group incurred a loss of £554,000, being hit by the poor trading at Mirabelle. By the end of the year the deficit was reduced to £420,000.

Turnover for the past half year came to £3.4m (£3.1m). Earnings were 53.88p (loss 104.36p). Borrowings were further reduced – helped by the sale of 200,000 shares in Wembley.

Tunstall to make further Ademco provisions

By Clay Harris

SHARES IN Tunstall Group fell 32p to 235p on Friday after the security equipment maker said it would have to make a further £1.6m in provisions against stocks and closures at Ademco, its chain of distribution centres. At the interim stage, Tunstall wrote off £544,000 above the line against Ademco.

As a result, profits for the year to September 30 would be "significantly lower" than the £4.55m reported in 1987-88.

Tunstall also said it had established "certain discrepancies" totalling £360,000 between book and actual stock levels at Tann-Synchronome, a manufacturer of fire and intruder alarms in bought for £1.9m in 1988.

Unlike the Ademco provisions, which will hit the profit and loss account, these will be taken as an adjustment against the value at which Tann-Synchronoma was brought into the books.

Tunstall said its core businesses were *continuing to perform strongly.*

Audio Fidelity costs warning

By John Ridding

Audio Fidelity, the sound equipment and consumer products group, has warned that extraordinary and exceptional costs have heen incurred in the second half of the financial year to the end of June 1989.

The company did not specify the losses, but said that they resulted from the planned closure of loss-making subsidiaries and from further write-offs. In the first half, the company reported losses of £2.34m before tax.

Copymore midway deficit at £346,000

Copymore, which distributes and services office automation equipment and is quoted on the USM, ran up a loss of £346,000 for the first half of 1989, but is expecting to return a profit for the full year.

At the beginning of June the directors warned that the result would be just short of break even. The loss stemmed from sales of £14.9m; against the 1988 profit of £709,000 on turnover of £7.2m.

Main cause of the disappointing half year was the principal subsidiary, where sales growth failed to match the programmed expansion of fixed costs.

Loss per share was 2.1p (earnings 4.2p). The interim dividend is again 0.8p; after waivers received in respect of nearly 80 per cent of the capital tha cost is £17,000 (£87,000).

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Carlton Communications Convertibla shares (Section: Leisure).

Fluor Corporation (Americans).

ISS-International Service System AS B (Industrials).

Meridian Oil (Oil & Gas).

Murray Enterprise Ord. and Zero Conv. Uns. Ln. 1994 (Investment Trusts).

Oliver Group Ord. (Drapery & Stores).

Takeover Panel asks Twigrealm to clarify recent bid circular

By John Ridding

TWIGREALM, the newly-formed company which is currently involved in a bid *battle for control of Meat Trade* Suppliers, the sausage casing and butchers' sundries company, has been asked by the Takeover Panel to clarify some of the points contained in a recent circular attacking revised proposals from its opponent.

It is competing for control of MTS with Alpha Gamma, a property development company which is proposing an agreed reversal into MTS.

Twigrealm now states that the revised proposals involve an increase in the consideration for Alpha Gamma of £268,000 and that the consider*ation exceeds the adjusted* net asset value of Alpha Gamma by £300,000.

MTS's proposed total consideration for Alpha Gamma is £12.55m with a simultaneous partial offer by Alpha Gamma of 372p for two out of every five MTS shares.

Twigrealm *is offering* 350p in cash for every MTS share, valuing the latter at £9.18m.

The Panel also asked Twigrealm to draw shareholders' attention to the fact that its comparison of the cash value of the Twigrealm offer and the revised partial offer from Alpha Gamma might create a false impression.

This is because an assessment of the realisable market price of the MTS shares retained under the revised proposals is difficult given that MTS shares are currently suspended.

However, Twigrealm *repeated its argument that if* MTS shares are valued at the pro forma net asset value of 275p per share contained in a MTS circular to shareholders then the Twigrealm offer still represents a premium of 11.5 per cent.

French group reduces stake in S Staffs Water

By Andrew Hill

Compagnie Générale des Eaux, France's largest water supplier, has reduced its stake in South Staffordshire Waterworks Company to avoid hav*ing to make a full bid for the* group.

South Staffordshire, one of 29 statutory water companies in the UK, is about to redeem a tranche of stock which would have left Générale holding more than 30 per cent of the statutory company.

Following last week's disposal and after redemption, General Utilities, Générale's UK subsidiary, will hold 29.99 per cent of Sonth Staffordshire's voting stock.

Générale also controls four statutory water companies and has significant stakes in four more.

Property sale lifts Cap and Regional

Taking into account a £3.1m profit on the sale of the Corn Exchange, Manchester, pre-tax profits at Capital and Regional Properties, jumped from £615,515 to £2.99m in the six months to June 24 1989.

Operating profits for this USM-quoted commercial property investment company fell from £302,794 to £211,461. The interim dividend is lifted to 0.3p (0.2p) and earnings per 10p share advanced to from 4.4p to 22.57p.

GPG £3.2m realisation

By Andrew Bolger

GPG, the rump of the Guinness Peat Group, said it had realised an investment in a company listed on the Stock Exchange for net proceeds of £3.2m.

The book value of the investment, which GPG would not identify, was £4.4m. Income *from the investment amounted* £60,000 pre-tax in the year to September 30.

GPG *also* said that an 11th-hour attempt by Lord Kissin, founder of the financial services group, to block the sale to management of three businesses had failed to meet Friday's deadline for alternative proposals.

GPG, which is 61 per cent owned by creditor banks of Equitcorp of New Zealand, is selling Fenchurch, its insurance-broking arm; Forstmann-Leff Associates, its New York-based fund management company; and GMCC, the holding company for US operations.

Barr sells Taveners stake

By Andrew Bolger

TAVENERS, the *Liverpool* confectionery maker, said the 29.9 per cent stake held by AG Barr, tha Glasgow soft drinks company, has been sold to Karl Fazer of Finland.

Fazer is one of the largest manufacturers of chocolate and sugar confectionery products in the Nordic countries, Taveners' principal export market.

Taveners said it and Fazer planned to set up joint techni*cal and marketing agreements* in Scandinavia.

No financial details of the deal wera revealed. Barr, maker of Irn Bru and Tizer, paid £453,000 when it bought the Tavener stake in September 1986.

Barr also lent Taveners £390,000 in return for an unsecured loan note, paying 10.5 per cent, and convertible in 1996 into Taveners shares at 80p per share. Barr has agreed to grant Fazer an option to *purchase the loan note.*

FINANCIAL TIMES STOCK INDICES

	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	Sep 22	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.57	84.61	84.76	85.09	85.82	85.80	89.29	83.75	127.4	49.18
Fixed Interest	95.68	95.98	96.03	96.06	96.09	96.10	99.59	95.21	105.4	50.53
Ordinary	1885.7	1876.2	1907.4	1913.5	1937.3	1949.5	2008.6	1447.8	2008.6	49.4
Gold Mines	212.0	215.2	212.9	211.8	209.2	210.7	215.2	154.7	734.7	43.5
FT-Act All Share	1169.55	1166.47	1183.48	1186.44	1197.67	1202.28	1225.80	921.22	1238.57	61.92
FT-SE 100	2299.4	2291.7	2331.2	2336.1	2359.6	2370.2	2426.0	1782.8	2443.4	986.9

FINANCIAL TIMES SURVEY

Prices of most metals have reached new records in the past 18 months. A gentle fall this year should not obscure the fact that the industry has undergone a huge revival, says Kenneth Gooding, and that many people expect a long period of sustained profitability.

Lessons from the recession

BOWS AND arrows and crude spears are among the weapons used to frighten away employees from the Bougainville mine in Papua New Guinea.

Disaffected local landowners also break through extensive security precautions, to take rifle pot-shots at buses on their way to the mine, one of the richest copper projects in the world.

The Sendero Luminoso, or Shining Path, a shadowy Maoist guerrilla movement in Peru, uses weapons taken from the Peruvian military and explosives from the country's mines in its violent campaign to overthrow the Government. Targeting Peru's mines, because they contribute 50 per cent of the country's export income, Shining Path has left 24 dead and 17 injured, and since 1980 has done $500m of damage to mines and equipment.

When miners arrived at the vast Cananea copper complex in Mexico one recent Monday, they found their way barred by 4,000 troops armed with machine-guns, while four helicopters kept vigil overhead. Faced with a strike by the 3,000 miners, the Mexican Government had declared the state-owned mine bankrupt, and the military was there to prevent sabotage and to stop dangerous materials falling into the hands of outraged employees.

In all these cases, the mining industry is an innocent bystander caught up in complex local political issues.

Natural disasters are more easy to understand – such as when torrential rains caused a landslide and shut down Ok Tedi, another rich copper mine in Papua New Guinea. So are technical problems, such as the explosion which halted operations at Cyprus Minerals' huge smelter in Miami, Arizona, in mid-August.

Strikes, like the one which has dragged on since May at Highland Valley Copper, a vast complex in British Columbia, Canada, are also usually about simple things such as pay and conditions.

There was a time, not so long ago, when those involved in the base metals business did not have to pay close attention to such situations, whether they were complex or not. Little local difficulties in far-off territories could be overlooked in a world which seemed destined for ever to be burried under huge surpluses of aluminium, copper, lead, nickel, tin and zinc.

But in the past 18 months, metal stocks have fallen to unsustainably low levels, and so any interruption to supplies has caused consumers considerable concern.

Take some of the examples already mentioned, and their potential to damage the copper market. Bougainville produces about 2 per cent of the non-communist world's supply of copper. Highland Valley accounts for another 2 per cent. Peru contributes between 4 and 5 per cent (as well as 11.5 per cent of the zinc and 6 per cent of the lead). The Cyprus smelter produces 5 per cent of the western world's copper, Cananea another 2 per cent, Ok Tedi 1 per cent.

No wonder producers and consumers of base metals, and the traders who often link them, have kept a careful watch on their screens in recent weeks, and been constantly on the telephone for news from their contacts around the world.

In the past 18 months, prices of most metals have bounced to new records and, although they have eased back this year, the fall has been much more gentle than expected because of supply disruptions.

But that should not be *allowed to obscure the fact* that the base metals industry, mired in recession only two years ago, has undergone a tremendous revival, and that many people believe it faces a long period of sustained profitability.

Analysts suggest that the industry has moved into a new era, and point out that there is little evidence that mining companies are being encouraged by their present prosperity to make mistakes of the magnitude of the late 1970s.

Then, encouraged by forecasts of prolonged world economic growth and a potential shortage of finite raw materials like base metals, they rushed into expansion schemes which came to fruition in the *deep recessions in the first half* of the 1980s.

The resultant flooding of the market, at a time of falling demand, led to oversupply and a perception that metal was immediately available – a perception which persisted beyond the start of the economic recovery in 1982, right through to 1987.

By that time, continuing growth in demand had finally absorbed all the additional supply, with the result that metal stocks began to drop very quickly and prices surged.

The recent high prices for base metals can also be traced in part to a gradual erosion of the mining industry's capacity to produce. The nominal capacities of mines and plants are often significantly in excess of their effective capacities, following changes forced on the industry during the recession.

The mining industry at that time deliberately scrapped or down-graded outmoded or high-cost facilities, and redesigned mines to produce at lower, more-competitive costs. RTZ, the world's largest mining company, estimates, for example, that the effective capacity of the non-communist world's copper mines at the end of last year was "getting on for 1m tonnes below nominal capacity".

During the recession, when the base-metals industry as a whole was losing 10 cents on every dollar of metal produced, capacity was eroded and exploration curtailed. The last big investment in base-metals mines and plants was in the early 1970s, so they are now middle-aged and often nearing the end of their useful lives.

"Mnch of the decline in real costs in the early 1980s was bought at the expense of the future – and the future is now paying the price," says Mr Philip Crowson, senior economic adviser at RTZ.

The situation is made worse by the fact that many of the ore bodies found in the late 1960s and 1970s are no longer worth developing. The reserves were discovered when the industry's cost structure was entirely different; when energy costs were low, and so was the cost of money.

Many of them have very little metal per tonne of ore, and are in remote areas of the world. Once the cost of providing access roads, accommodation for the workforce and other infrastructure work is taken into account, the mines would have to be developed on a huge scale, thus adding more expense in terms of interest and for capital equipment.

The gap left by mine closures and lack of exploration will not be filled easily or quickly. It takes about 10 years from discovery to get a metals mine and associated equipment up and running.

The last of the projects that were started 10 years ago are coming on stream – such as the huge Olympic Dam copper-gold-uranium mine in Australia; Red Dog in Alaska, the world's biggest lead-zinc mine; or Escondida, a massive copper project in Chile.

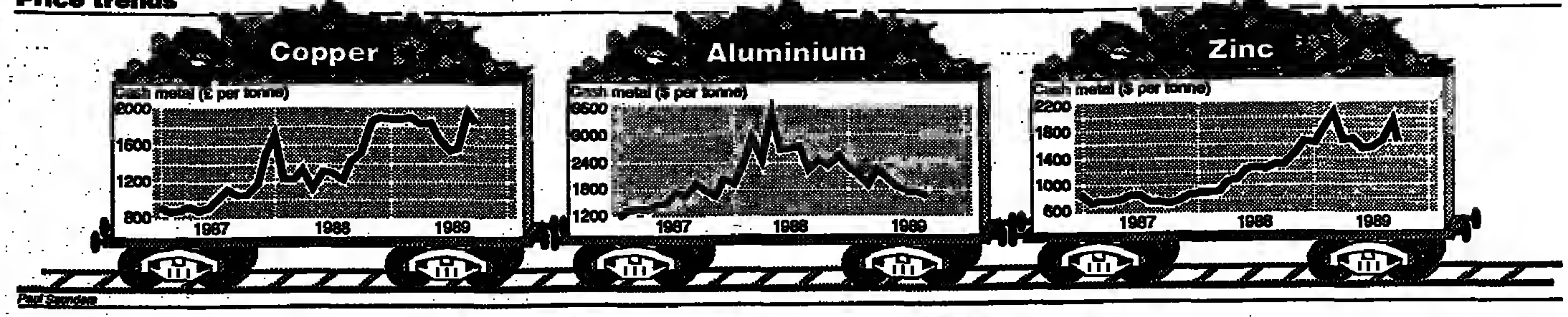
RTZ's Mr Crowson suggests: "These projects are not enough. They, and more, are needed not just to meet prospective demand, but also to compensate for the likely closures of the next few years."

He says the industry is likely to see relatively high metals prices, and hence good profits, for some years ahead "because of its inability and unwillingness to invest sufficiently to keep pace with demand". In the long run, however, metals prices will move into line with the industry's marginal costs, Mr Crowson points out.

Mr Jan Slechte, president of Billiton, the Royal Dutch/Shell metals division, goes further: "Our basic assumption is that metals prices will continue to fall in real terms – the trend is quite clearly down."

The metals industry will not gain the full benefits of future world economic growth, because it is not doing enough to improve its product and process development, *while, at the* same time, there will be less-intensive use of metals in new products and further substitution for metals by other raw materials. "So it would be asking a great deal for metals demand to grow in line with the world economy," says Mr Slechte.

Price trends



BASE METALS

□ *Picture: Waiting to trade on the LME — Lydia van der Meer*

COPPER

A year of unrest

AT FIRST sight, the London Metal Exchange copper market would appear to have done pretty well over the past year. Both the cash and three-months positions have touched record levels during the period, and the cash quotatioo has receotly been about 22 per cent above the level ruling 12 months ago.

That is in sterling terms, however. Adjustment for the appreciation of the dollar against the UK currency since last October shrinks cash copper's advance to less than 12 per cent – a decent margin over inflation, but nothing to write home aboot. And it might actually be viewed as somewhat disappointing, considering the catalogue of disruptions which has been upsetting the supply side of the equation.

The Peruvian national stoppage was a considerable blow

A year ago, all copper's vital signs were pointing upwards. Industrial demand was still *buoyant; stocks were heading downwards;* there were production problems on the African copperbelt (because of spare-parts shortages); President Pinochet's election defeat had raised the prospect of industrial unrest in Chile; and Peru's miners were preparing *to resume the strike they had* called off only a few months earlier.

In the event, we had to wait until the begining of last mooth for the first Chilean mine strike, at Codelco's Salvador operation, and that lasted only two weeks. But the Peruvian *national stoppage* began on schedule, on October 17, and did not finish until mid-December – taking the total of days lost to the industry in 1988 to 87.

Peru normally snpplies about 6 per cent of the non-communist world's copper production, which last year totalled 6.65m tonnes. Refined copper output was also 6.65m tonnes, well below non-communist world consumption of 8m tonnes. Imports from the eastern bloc countries at an estimated 150,000 tonnes still left a big gap to be filled by consumers' drawing down stocks.

In the circumstances, the absence of Peruvian output for so long was a considerable blow. When the strike started, copper stocks in London Metal *Exchange warehouses stood* at 87,075 tonnes; when it finished, they were down to 61,725 tonnes. New York Commodity Exchange (Comex) stocks of copper were halved, meanwhile, to just over 5,000 tonnes.

The resulting squeeze on supplies was clearly discernible in the market. LME cash copper, which had been fetching £1,537.50 a tonne at the begining of October, had breached the £2,000-a-tonne market by the time the Peruvian miners returned to work, and the premium over con*tracts for delivery* in *three* months (known as the "backwardation") had widened out to a massive £280 a tonne.

The ending of the strike certainly chipped some of the icing off the copper market's cake, but with stocks remaining low the price fall was far from *precipitate. The* African problems were continuing, and the possibility of a resumption of the Peruvian dispute (which had not been settled to the miners' satisfaction) was never far from dealers' minds.

It was not until LME stocks pushed past the 100,000-tonne *mark that the retreat really got* under way. *The stocks* total peaked in May at a little over 135,000 tonnes, just before the next big supply disruption appeared on the scene – the closure of Papua New Guinea's 180,000-tonnes-year Bougainville mine because of rebel sab*otage.*

By then, LME stocks were heading down again, but the market seemed not to notice. In early June, the cash price went below £1,550 a tonne and, equally significantly, into "contango". Contango (the opposite of backwardatioo) describes the "normal" situation, in which the cash price is at a discount to forward positions (a rule which has proved the exception *in* most LME markets in recent years). So its reappearance tended to suggest that concern about nearby supply availability had evaporated.

This return to "normality" was not destined to last, however. Within a few days the backwardation was back, and worries about possible labour contract strikes in the North American copper industry soon widened it out to more than £40 a tonne. But those worries proved ill-founded, and news of settlements at Noranda and Magma Copper in late June and early July sent the cash LME quotation plunging to a *nine-month* low of £1,474 a tonne – though it was still at a modest backwardation.

That proved to be the bottom of that particular trough. LME stocks were still falling – when the low was reached, they were only about 12,000 tonnes above the level ruling at the time of the £2,000-a-tonne peak – and supply problems were piling up again.

The Bougainville mine was still closed – indeed, Bougainville island itself was under a state of emergency because of the rebel activities; the "Shin*ing* Path" *guerrilla group* was disrupting the Peruvian mining industry; and one of the North American mines, Canada's 170,000-tonnes-a-year Highland Valley operation in British Columbia, was still strike-bound because of a labour contract dispute.

Better US economic indicators gave the market a fillip

Then the market was given another fillip, this time on the economic front. In mid-August, US economic indicators, which earlier had been pointing ominously towards recession, began to raise hopes that a "soft landing" for the US economy might after all be on the way. Coinciding as it did with the beginning of another Peruvian miners' strike – about the prospect of which the market had seemed curiously relaxed – this factor brought the bulls back in, and by August 25 the cash price was within £25 of the December record. This time, however, the three months price was not so far behind (at £1,914 a tonne), indicating the the market's strength was more soundly based.

Prices have settled back since the collapse in disarray of the Peruvian strike after 2½ weeks. But with the Bougainville operation closed again – a restart last month had to be aborted after only nine hours because of rebel attacks, supply problems continuing, and stocks remaining well below the 100,000-tonne mark – no one seems keen to sell this market short.

Richard Mooney

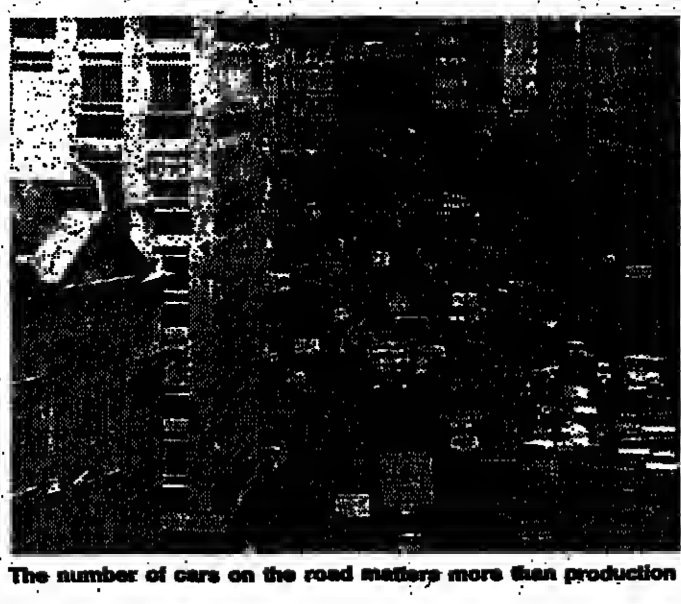
LEAD: a healthy automotive industry is driving prices up

More power from batteries

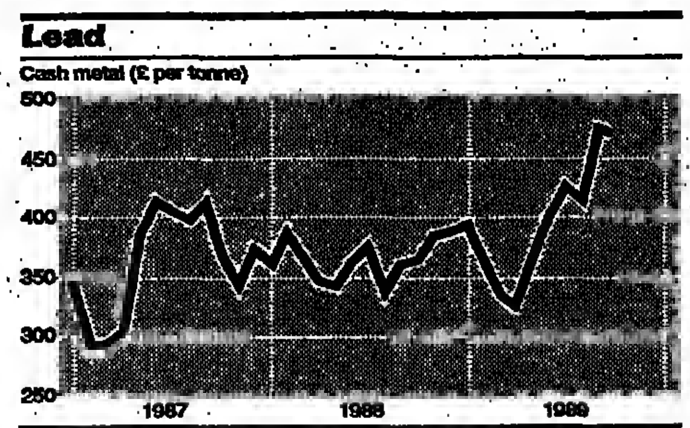
THE LEAD market, which had plodded along stolidly while *other base metals took it in* turns to shine, came to life at the beginning of August.

Prices surged as the London Metal Exchange reported an unexpectedly large drop of 6,900 tonnes in its warehouse stocks, taking them down to *25,650 tonnes. At the beginning* of the year, LME stocks had stood at 61,500 tonnes.

At the beginning of last month, the cash price hit an eight-year peak of £473.50 a tonne, as concern about the level of stocks continued and *fears of supply tightness later* this year began to emerge, against a background of stronger than expected demand.



The number of cars on the road matters more than production



Nuova Samim's 84,000 tonnes a year smelter, at Portovesme, Sardinia, was closed down after a boiler accident, and will not be back in action until early next year, partly because the company has taken the opportunity to bring forward scheduled maintenance work.

The health of the automotive industry has been the main factor in driving up prices – batteries now account for more *than 60 per cent of lead con*sumption. While car production in the US has faltered, output in Japan and western Europe has remained stronger than expected and ahead of the 1988 level.

However, it is not just new car production that matters, *but the number of cars on the* road; and this is providing a steadily growing market, according to Mr Neil Buxton, analyst with the Shearson Lehman Hutton mining team. In addition, the weight of lead in each battery is slowly increasing as manufacturers offer *higher performance and longer* life.

Mr Buxton also points out that no viable alternative to the lead-acid battery is in sight.

Long-term forecasts of the growth in lead consumption range from 1 per cent to 1.4 per cent a year, and balance a growth in lead for batteries, of about 2 per cent a year, against declining markets in other uses, according to Metals Economics Group, a Canadian natural resources researcher.

The declining markets include lead as a petrol additive. Environmental concerns have already caused this market to fall by more than half since the beginning of the decade, when it used 238,700 tonnes, according to Shearson Lehman. Last year it took about 105,000 tonnes – a minor amount in a market of 4.8m tonnes a year. The rise of the Green movement is also putting continned pressure on lead's use in paints, chemicals and cable-sheathing.

While overall lead consumption has been rising slowly but surely for the past six years, and is expected to continue to do so, primary non-socialist mine production has been static for a very long time. Lead is mainly mined as a by-product of other metals, primarily zinc.

The peak of production, according to Shearson, was in 1978, since when it has fluctuated around 2.5m tonnes a year.

Last year, non-communist production of lead concentrate was 2.35m tonnes, down from 2.37m tonnes in 1987. The fall followed production losses in Peru and Canada, two of the leading producing countries. The Peruvian setback was a combination of technical problems, strikes and guerrilla attacks, while Canada saw the closure of the Pine Point mine.

Shearson estimates that, this year, there will be an increase in concentrate production of 3.7 per cent, to 2.44m tonnes, thanks mainly to expanding output in the US and Australia, followed by a 5.7 per cent increase next year. Cominco's Red Dog mine, in Alaska, which is expected to start producing later this year, is by far the biggest project. Asarco is building up output at Sweetwater and West Fork. In Australia, improved production is expected from *Cadjebut* and Hellyer.

However, primary production accounts for only about half the 4.3m-tonnes-a-year lead market – secondary production is just as important, and prices are at levels which make it an attractive and profitable business to recycle old batteries. Mr Buxton points out that many secondary producers, particularly in the US, are raising their production capacity.

US secondary production last year was 645,000 tonnes, compared with only [illegible] tonnes in 1983, when the industry's future was in doubt because of low prices. RSR *alone is boosting capacity* by 100,000 tonnes – as much lead as Red Dog is expected to produce in a year.

The supply and demand balance for the lead market is traditionally very closely balanced. Mr Buxton points out that, even in bad times, stocks have represented only two months' usage, which can be contrasted with enough stocks for as much as 16 weeks for aluminium. Since its annual review of the lead industry was published in June, Shearson has revised its forecast of a small surplus this year to a suggestion that there could be a small deficit.

Metals and Minerals Research Services, the London analysts, said in its third-quarter report that it believed the fundamentals were still little more than neutral, "with primary production and consumption rising by a similar amount this year, and secondary output sufficient again to balance the market."

Mr Buxton believes that prices much above £450 a tonne are unsustainable in the long-term. Other analysts generally agree that prices are unlikely to be above 30 cents a lb for most of next year.

All in all, it appears that lead is unlikely to shake off its dull image, despite the excitement of the past couple of months.

David Blackwell

ZINC

A galvanizing effect

THE BUBBLE burst for zinc at the beginning of last month, when the London Metal Exchange revealed that stocks of the metal in its warehouses had risen to the highest levels for five years.

This was in marked contrast to the beginning of the year, when stocks were steadily falling.

Threats of further trouble in the Peruvian mining industry took the cash price for high-grade metal to more than $2,000 a tonne, peaking at $2,107.50 a tonne on March 3.

The troubles in Peru, which began with a 57-day strike a year ago, have combined with strong demand for zinc, particularly from the galvanising sector, to keep prices high.

Peru accounts for more than 11 per cent of world zinc concentrate production, but the country's mining sector has been faced not only with labour strife, but also with a crumbling infrastructure. This is reflected in its output figures.

According to Shearson Lehman Hutton's London mining team, Peruvian production of zinc peaked in 1987 at 619,000 tonnes. In 1988 it slumped to 485,000 tonnes; it is estimated this year at 540,000 tonnes, and next year at 580,000 tonnes.

A further strike this August proved a *half-hearted affair of* 2½ weeks' duration, which did not get a firm grip on the industry. Analysts suggested that a great deal of metal, bought for security reasons before the latest strike, quickly found its way into LME warehouses when the *workers returned to their jobs.* LME stocks rose by 6,675 tonnes to 58,275 tonnes at the end of the month – the highest level since July 1984, and have since risen further.

Nevertheless, while prices are well off the peak, they are still relatively high. Mr Nick Moore, metals analyst with Ord Minnett, the securities house, said last month that he expected the price to average 77 cents a lb this year, equivalent to almost $1,700 a tonne, compared with an average of 56 cents a lb last year.

While supplies have been disrupted, offtake from the galvanising industry, which alone accounts for 45 per cent of zinc demand, has been particularly strong. According to Shearson Lehman, production of galvanised sheet rose from 20.46m tonnes in 1980 to 36m tonnes last year.

Mr Neil Buxton, metals analyst with Shearson, points out that, over the past five years,

UK manufacturers warned that the cost of zinc threatened to harm consuming industries

there has been a 10 per cent average growth rate in galvanised steel production – "and there are not many industries where you see that". He believes that the increases would have been higher were it not for capacity restraints, but capacity is being increased *rapidly worldwide. Significant* increases in output are still expected, although the rate of growth is likely to slow down, he predicts.

"Galvanising is a definite growth market, and it's already a substantial one," he said. The main area of growth is in the non-residential construction market – not the more widely publicised car industry, which accounts for only about 25 per cent of the galvanising market. Galvanising is already at saturation point in the US and Japanese automotive industries, although Europe has some catching up to do. But galvanised materials are being increasingly used worldwide in office, warehouse and industrial buildings.

Mr Buxton points out that high prices are not a problem for the galvanising industry, as the cost of the zinc is much smaller than the cost of the steel. But the same cannot be said of other sectors which consume zinc.

Concern about the high level of prices surfaced in March, at an LME seminar on the metal, when UK manufacturers warned that the cost of zinc threatened profound harm to consuming industries, especially the brass and diecasting sectors.

The last quarterly report from Metals and Minerals Research Services, the London analysts, points out that "the longer prices stay at or near their current levels, the greater will be the chances of widespread substitution, at least in diecasting and brass."

While losses to substitution would not happen overnight, the report said the effect on demand had to be factored in. It put overall growth in zinc demand 1.7 per cent ahead for this year at 5.35m tonnes, but forecast a return to last year's level of 5.26m tonnes in 1990.

On the supply side, the new $450m Cominco mine at Red Dog, in Alaska, has dominated the news. It is expected to come on stream later this year, and to build up to full production of about 300,000 tonnes by 1992. However, it should be noted that this will be replacing output of 180,000 tonnes a year lost from the closure of Cominco's Pine Point mine.

Mr Buxton points out that Red Dog is the only new producer arriving on the scene in North America – it is Australia which will provide the bulk of the fresh supplies. No single mine there will provide a large amount, but the combined result of expansion at several small mines will be higher than output at Red Dog. However, while Australian production is set to top 1m tonnes a year, output in Canada is in decline.

The net result of these increases in production will lead to a small surplus of supply over demand next year after two years of deficit, analysts believe. *Shearson* expects a small surplus; Metals and Minerals Research Services estimate 50,000 to 100,000 tonnes; and Mr Moore, of Ord Minnett, puts the 1990 surplus at 100,000 tonnes.

Consequently prices are seen as falling to an average of around 55 cents a lb next year – still relatively satisfactory for zinc prodncers. As Mr Moore points out, for some years they had to make do with 32 cents to 35 cents a lb.

Meanwhile, the High Grade zinc contract at the LME looks as if its days are numbered. On Wednesday next week, the LME board meets to discuss dropping it, leaving the Special High Grade contract as the LME's sole zinc contract.

The SHG contract was introduced in September a year ago, and appears to have been welcomed by both miners and smelters as the price indicator for the industry. Indeed, the European Producer Price (EPP) was abandoned at the beginning of this year.

David Blackwell

Lydia van der Meer

Such was the London Metal Exchange's importance to the base metals industry world-wide that it quickly recovered its poise

Kenneth Gooding considers the London Metal Exchange's future

Global regulation provides the immediate challenge

"IT HAS been six years when there was one crisis after another," says Mr Michael Brown, who is about to retire as chief executive of the London Metal Exchange, after steering it through the most traumatic period in its long history.

He joined the LME secretariat in a newly-created post in March 1985. Within six months of his appointment, the exchange was rocked by the collapse of the International Tin Council's price support scheme, leaving about £900m of debts.

The brunt was borne by the LME which, at one point, was almost overwhelmed by the default. There were some bankruptcies and other departures from the exchange, which reduced the ring dealing membership from 28 to 21.

Such was the LME's importance to the base metals industry world-wide that it quickly recovered its poise. Last year, according to Bank of England statistics, its invisible earnings were £75m — more than any other UK exchange.

The LME's share (by weight) of terminal market trade in non-ferrous metals is 80 per cent of all the copper, 99.9 per cent of the aluminium and 100 per cent of the lead, nickel and zinc.

The exchange decided it was strong enough to start tin trading again on June 1

A complex web of litigation followed the tin market's collapse. The LME was involved, both as a defendant in a case which it successfully fought and in leading an attempt — so far unsuccessful — to get those governments which backed the ITC to pay off some of its debts.

Although it still bears scars from this affair, the LME decided it was strong and healthy enough to start tin trading again on June 1 this year.

To be precise, the LME started trading tin for the first time, because it is a relatively new organisation. In August 1987, it took over the assets of tha Metal Market and Exchange Company as part of a process of protection against the possible consequences of the tin litigation.

At the same time, a new management structure swept away the old committee of management, which effectively was a self-perpetuating board. Members of the new board must periodically seek re-election, and there are four invited members from outside to add a broader dimension.

In recognition that more than 97 per cent of its turnover comes from outside the UK, trade membership has been opened to foreign companies. And — further evidence that the exchange intends to develop internationally — in September 1987, Singapore became the first LME-listed warehouse delivery point outside Europe.

More recently warehouses, for aluminium only, have been listed in Japan and, some time in the near future, will be established for aluminium and nickel in the US.

The objective, according to Mr Christopher Green, the LME's chairman, is for major metal consumers to have LME warehouses close by, rather than on the other side of a wide ocean. This should encourage more consumers to use the LME and improve its liquidity.

He says care will be taken to ensure that warehouses are not placed too close to metal producers who then might be tempted to put too much of their own stock into LME inventories.

Perhaps the most dramatic change to the LME was the introduction, in May 1987, of a clearing system. This did much to restore confidence in the LME, because it is using an independent third party which also clears for other exchanges in the UK and abroad.

The new clearing system also allowed the official LME contract period to be extended from three months to 15 months.

In spite of this radical departure, the LME managed to preserve its traditional way of trading, and ensured that profits and losses were not payable until the due dates of contracts. All deals are taken over and guaranteed by the Clearing House, so that no clearing member can suffer by the failure of another clearing member.

However, this unique system is currently under threat by a regulatory agreement reached in May this year between the US Commodity Futures Trading Commission (CFTC) and the UK Securities and Investments Board (SIB).

The CFTC insisted initially that LME traders segregate the funds of US clients or stop doing business in the States, where segregation is compulsory. Segregation involves the separation of positions and client money from the trader's own account.

"The CFTC says this is necessary to protect customers from a possible default or from other financial problems that a broker might run into.

The CFTC is also concerned about the LME clearing system because most trading on futures exchanges is "cash cleared", so that profits are paid daily and margins called to cover contract losses.

LME traders often grant credit to major trade clients, such as mining companies, allowing them to cover losses on forward contracts until settlement. The traders say they could face financial hardships if forced every day to set aside cash in a separate account to cover unrealised profits on forward contracts held by US clients. Last year 16 per cent of the LME's £500bn turnover came from the US.

If the LME becomes less attractive to users, trade could be driven off-shore

"The bulk of the LME transactions are at very low margins of profit for traders, typically less than 0.1 per cent, and we are worried about regulation driving up costs," says Mr Green.

If, as a result, the LME becomes less attractive to users, the UK exchange might lose business by trade being driven off-shore to other metal exchanges or into the "grey" or unofficial market.

The LME recognised some time ago that regulation would provide a major challenge to its future operations. That is why it recruited Mr David King as director of finance and administration in September 1987. Mr King, aged 44, a chartered accountant and MBA (Master of Business Administration), will take over when Mr Brown retires as chief executive.

He arrived as the LME was in the process of steering its way through the complexities of the UK Financial Services Act. It became a Recognised Investment Exchange under the terms of that Act in April last year.

Mr King has been in the front line of the dealings with the CTFC, which recently gave another extension of its deadline, taking it to the middle of November. Mr King says the LME continues to work with the CTFC and the UK Association of Futures Brokers and Dealers (AFBC) to reach an accommodation on the segregation issue. "I am mildly optimistic about the outcome," he says.

Nevertheless,"regulation is the top priority for the LME at the moment. A global enmeshment of regulation is evolving — from the UK, the US, the European Commission and Japan. It is essential for the LME to find an accommodation in this global system so that, as far as possible, it can maintain its current method of operation," says Mr King.

So one can sympathise with Mr Brown, about to bow out as chief executive. He says: "I've had 40 years in the commodities and metals markets, 40 years of commuting to London, and the time has come to step aside and take life a little more slowly."

Top 25 mining companies by value: 1987

	Controlling company	Country	% share*
1	Anglo American Corp of South Africa	South Africa	10.5
2	RTZ Corporation	UK	3.8
3	Consolidated Gold Fields	UK	2.9
4	State-owned companies of Brazil	Brazil	2.8
5	State-owned companies of Chile	Chile	2.8
6	Asarco-MIM Group	US/Australia	2.6
7	General Mining Union Corp	South Africa	2.3
8	Placer Dome	Canada	2.0
9	Broken Hill Proprietary	Australia	1.6
10	Inco	Canada	1.4
11	Brascan (including Noranda)	Canada	1.4
12	State-owned companies of Zaire	Zaire	1.2
13	Phelps Dodge	US	1.1
14	Barlow Rand	South Africa	1.1
15	State-owned companies of Morocco	Morocco	0.9
16	Sté Générale de Belgique	Belgium	0.9
17	State-owned companies of Malaysia	Malaysia	0.8
18	State-owned companies of Yugoslavia	Yugoslavia	0.8
19	State-owned companies of Zambia	Zambia	0.8
20	Teck Corp	Canada	0.8
21	State-owned companies of Peru	Peru	0.8
22	Western Mining Corp Holdings	Australia	0.7
23	Homestake Mining	US	0.7
24	State-owned companies of Canada	Canada	0.6
25	State-owned companies of Indonesia	Indonesia	0.6
	Total, states		12.0
	Total, all		45.6

*Approximate percentage share of total value of western world mine production on non-fuel minerals

Source: Raw Materials Report

TIN: the stockpile is down to six weeks' usage

Output-curb lifts prices

TIN MISSED the boom in metals prices last year, but in 1989 it has joined the party. However, there is an essential difference behind its apparently conventional performance and that of the other base metals: the price has been driven up by constraint by the producers, rather than because of demand from consumers.

Producers have carefully restrained output, while the huge stockpile overhanging the market since October 1985, when the International Tin Council's price support scheme collapsed, has been whittled away.

That stockpile of refined tin, totalling 120,000 tonnes, was then equivalent to about nine months of tin demand. That has now been reduced to about 25,000 tonnes, or six weeks of current usage.

Stocks have come down because the Association of Tin Prodncing Countries (ATPC) has successfully operated a prodnction quota system for the past three years. The members of the ATPC are Australia, Bolivia, Indonesia, Nigeria, Malaysia, Thailand, and Zaire. Brazil, which has overtaken Malaysia as the world's biggest tin producer, and China, while not members of the ATPC, have voluntarily complied with the quota system.

Their efforts helped drive up the tin price from about $7,200 a lb, at the end of 1988, to a peak of over £10,000 this year before consumers went on strike and forced the price back down to about $8,500 a tonne.

The recent reversal, to what consumers consider to be a more reasonable price level, followed the re-introduction of tin trading on the London Metal Exchange on June 1 this year, which provided a valuable source of transparent market prices.

Tin is one of the oldest metals known to man, but remains an important international commodity — illustrated by the fact that about 70 per cent of production comes from four developing countries: Brazil (25 per cent), Malaysia (20), Indonesia (20) and Thailand (8), while the big consumers, accounting for about 75 per cent of demand, are the industrialised countries: western Europe (30 per cent), the US (25) and Japan (20).

The major uses of tin metal are in tinplate, which accounts for about 30 per cent of total consumption. Demand from this sector has been adversely affected by substitution of other materials in packaging, particularly by the use of aluminium in beverage containers.

Soldar, the second-largest use of tin, accounting for about 25 per cent, has benefited from the explosion in production of electronic gadgets of all types. But this has been tempered by less-intensive use of solder because of the miniaturisation of components and the growth of integrated circuits, microprocessors and leadless components. There is also less solder being used in joints, and tin used in paste is being reduced.

Tin has found a new market in the chemicals indnstry, which has grown rapidly to account for about 15 per cent of demand. It is used in polyvinyl chloride PVC stabilisers, biocides and catalysts, in plastics, glass ceramics, fire retardants, wood preservatives, pesticides and paints.

According to International Tin Statistics* — a publication set up under a trust fund project administered by the United Nations Committee on Trade and Development (UNCTAD), as an interim arrangement for collecting tin statistics, now that the ITC has no cash for this task — tin consumption has risen strongly in tha past three years.

It was 187,400 tonnes last year, up from 179,700 in 1987 and 173,100 in 1986. Demand seems to be climbing back to the peak of 205,000 tonnes reached in 1973.

Meanwhile, the UNCTAD statistics show that output was held well below consumption. About 153,000 tonnes of tin in concentrates was produced last year, compared with 137,600 tonnes in 1987, while production of tin metal reached 179,200 tonnes in 1988 (158,600 tonnes).

There seems little doubt that non-communist world tin stocks are now down to a manageable level. However, in addition to these commercial inventories, there is the US National Defence stockpile built up during the 1940s and 1950s. The US stockpile currently is estimated to be about 142,000 tonnes, of which at least 100,000 tonnes is apparently surplus to requirement.

There seems little doubt that non-communist world tin stocks are now down to a manageable level

Fortunately for the tin market, disposals from the US stockpile are limited by legislation — they can total no more than 5,000 tonnes this year.

Mr John Harris, an analyst with the Rudolph Wolff commodity broking house, says: "The possibility of legislation in the US, which would take three to six months, to release further stocks should not be dismissed as the effects on the market could be quite dramatic. However, the US stockpile is mainly of low-grade tin, and its usage would therefore be restricted."

Mr Frederick Demler, metals analyst at Drexel Burnham Lambert, reckons tin prices are likely to hold firm for several quarters ahead, but "the seeds of longer term surplus have already been planted.

"Operations have been reactivated, and new low-cost discoveries have been made. Furthermore, we expect consumption to turn down in 1990-91, due to the combined impact of a projected slow-down of the US economy and a correction from above-normal growth in tin demand in the past few years."

He adds: "Longer term, we forecast tin prices weakening, but not collapsing back to the 1986-87 lows."

The efforts of the tin-producing countries, to keep output down whila stocks were reduced, made the tin market susceptible to a physical squeeze this year, resulting in the sharp price increase. The tin producers are well aware of the dangers brought by inflated prices, and took steps to bring them back down by encouraging ATPC members to release stock to compensate for the market tightness.

Current ATPC export quotas, which expire at the end of nextFebruary, are 106,400 tonnes, with China and Brazil voluntarily restricting themselves to 31,500 tonnes and 10,000 tonnes respectively.

The ATPC countries are unlikely to give up their vigilance and, although they could not prevent the tin price falling through the floor again, they could probably take quick action if the price were to go to what they considered to be an unnecessarily high level. So their voluntary restraint scheme is likely to be continued for at least another year.

**International Tin Statistics. £25. From Haymarket House, 4th floor, 28 Haymarket, London SW1Y 4EQ (tel 01 930-0451).*

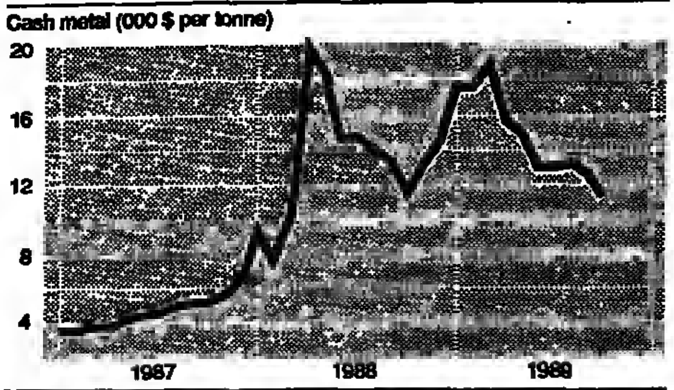
Kenneth Gooding

NICKEL: **Richard Mooney** examines the price riddle

A stainless steel anchor

Nickel

Cash metal (000 $ per tonne)



THE PROBLEM with the nickel market at the moment is how to decide whether prices are high, low or indifferent.

Ought the current price to be regarded as less than half the record level reached in May last year, or as more than twice the level ruling only a few months before that?

Over the past year, this dilemma has often been apparent in the market's uneven reactions to the published level of stocks – which has been the main driving-force behind price movements.

That stocks are low there is no doubt. The total held in London Metal Exchange registered warehouses has occasionally been less than one day's non-communist world consumption, and never more than four days'.

Indeed, it was the plunge in LME stocks – from about 7,000 tonnes, at the start of 1987, to less than 2,000 tonnes in March 1988 – that laid the groundwork for the unprecedented surge that lifted the LME cash nickel price from about $2,500 a tonne to a record $23,900 a tonne over that period. This peak certainly owed much to the protracted export-tax dispute that halted Falconbridge shipments from the Dominican Republic for months, yet the price trend was already upward when that factor took hold.

It is not surprising that the market failed to hold above $20,000 a tonne for long; but, with stocks remaining low and stainless steel production continuing high, the nickel price has ranged freely in the $10,000 to $20,000 range without, until recently, threatening to breach the bottom end. The recent fall below the psychologically-important $5 a lb level ($11,020 a tonne) has brought this prospect closer, however.

Apart from a transformer failure that halted production at an Inco plant in Indonesia for a while, processing problems at another Inco plant, in Manitoba, and the temporary closure of an Ontokumpu plant in Finland, the past year has been relatively uneventful on the supply side. But stainless steel demand, which accounts for about 60 per cent of nickel consumption, has been strong enough to prevent nickel stocks building to a comfortable level.

Last year, non-communist world consumption of nickel reached 664,000 tonnes, while, by working at about 90 per cent of capacity, the suppliers produced 563,000 tonnes. The shortfall was not quite covered by imports from the eastern bloc, which totalled about 79,000 tonnes, most of it from the Soviet Union.

For most of the past 12 months, LME stocks have been in the 2,000 to 4,000 tonnes range, but the market's reaction has not been consistent. There was one period, during October and the first half of November, when stocks were much lower (1,308 tonnes, at one point); and another, during January and early February, when they were above 6,000 tonnes. Curiously, however, the highest price reached during the period of extremely low stocks was $14,350 a tonne, while the lowest price reached when stocks were at the high end was $16,550.

Here is another curious thing. When LME stocks rose to 4,248 a few week's ago, the market dropped sharply to a 19-month low of $10,525 a tonne; but the last time stocks were that high, in May, the price was about $14,000 a tonne; and the time before that, in February, it was $18,750 a tonne.

For most of the past 12 months, London Metal Exchange stocks have been in the 2,000 to 4,000 tonnes range, but the market's reaction has not been consistent

Clearly the relationship between stocks and price levels cannot be expected to be very reliable – the LME would be a very dull place if it were – but disparities of this order nevertheless merit examination.

Market sentiment obviously influences price reactions to stocks movements, and in the nickel market sentiment has certainly become less bullish as industrial growth in general and stainless steel output in particular have shown signs of flagging.

A further consideration, in the case of nickel, is the extremely low level of the figures. Comparatively small shipments, in or out of the warehouses, can have an apparently dramatic effect on the total. This could offer a tempting prospect to would-be market manipulators.

Mr Jim Lennon, metals analyst with Shearson Lehman Hutton, the financial services group, suggested that something of the sort might have been behind a sudden jump in the LME stocks total to an 18-month high in January.

The cash price had been above $19,000 when the stocks figure suddenly surged 4,224 tonnes to 6,768 tonnes. Mr Lennon said the most likely explanation was that large continental European merchants, which had been taking nickel off the LME and "hiding it away" to exaggerate shortages, had decided to dump it all back, "to achieve the desired impact and make a big profit".

The pattern was repeated at the end of April, when a price rise to $16,600 preceded the sudden doubling of LME stocks to 4,824 tonnes. Mr John Harris, analyst with brokers Rudolf Wolff, commented at the time that the appearance of the extra quantities suggested that supplies of the metal were not so tight as had been widely believed.

Whether or not these were cases of manipulators cashing in their profits, the relationship between stocks levels and prices has certainly seemed to become more tenuous over the ensuing months. But that could simply be because the market has got used to its hand-to-mouth existence.

ALUMINIUM

Eyes on the Middle East

Aluminium ingots await export, at a New South Wales smelter

ALUMINIUM prices have fallen to less than half the peaks of summer last year, when a combination of low stocks, production shortfalls and high demand sent the London Metal Exchange price of immediate-delivery metal to $4,280 a tonne, or $1.94 a lb.

Three-month metal was $1,000 a tonne less at the time – a more realistic view of the overall aluminium market. Fears about nearby shortages pushed the spot price to the skies.

By the end of 1988, cash metal was $2,546 a tonne, and throughout this year the price has continued to fall. Nevertheless, the fundamental factors of the market do not justify the price more than halving, says Mr Neil Buxton, of Shearson Lehman Hutton's London mining team. Demand is still rising; production slowing under capacity restraints; and the rebuilding of stocks is taking a long time.

The level of capacity utilisation over the past couple of years has been remarkable, as producers have responded to soaring demand.

Until recently, the transport sector in the non-communist world, which accounts for 25 per cent of aluminium used, was booming, as was building-construction (22 per cent). Meanwhile, the metal continues to make headway in packaging – aluminium containers now absorb about 18 per cent of output.

Most analysts suggest that capacity usage is 97 to 98 per cent. Mr David Morton, president and chief operating officer at Alcan Aluminium, said in April that it would be difficult to maintain this rate over the long term, and that "any interruption in production, by plant breakdown or strike, could affect the supply-demand balance dramatically."

Mr Buxton says that, to all intents and purposes, all primary aluminium capacity has been running flat out. This compares with 1982, when capacity utilisation was only 75 per cent. He describes the industry as "amazingly trouble-free so far – partly because the bulk of production is in the developed world." Among the top three largest producers, the US accounts for about 29 per cent of non-communist world aluminium, Canada 11 per cent and Australia 8 per cent.

Non-communist output of aluminium has increased sharply in an effort to match demand, although the rate of increase is slowing down. Shearson said last month that output was set to rise by 4.6 per cent to 14.44m tonnes this year, after increasing by 7.3 per cent last year and 5.5 per cent in 1987. This year should see a small surplus of supply over demand, after four years of deficit. But no big production plants are scheduled to come on stream in the immediate future, and Shearson estimates that supplies will be in deficit for the next two years.

Beyond 1991, the picture starts to change, with greenfield sites scheduled for the Middle East and Venezuela, although Shearson points out that, in many cases, the financing for projects has not been arranged, and the timing is likely to slip.

The Middle East is a particular area to watch, with governments keen to make the region a major force in aluminium production by the mid-1990s, according to Metals and Minerals Research Services, the London consultancy group. Its latest report cites the plans by Alba in Bahrain for a $1.2bn, 420,000 tonnes per year expansion for 1992; the possibility of a 220,000 tonnes per year smelter at Yanbu, also for first production in 1992; and the further possibility of a $1.2bn, 240,000 tonnes per year smelter in Qatar.

The demand side of the aluminium equation has been spectacular. Worldwide consumption of the metal rose by 32 per cent between 1983 and last year, Metals and Minerals Research Services points out in its latest quarterly report; while OECD industrial growth over the same period was only 21 per cent. In Japan alone, demand rose by 25 per cent last year.

However, this year demand has slowed dramatically, particularly in the US, which accounts for about a third of the market. The US construction and automobile sectors have been relatively sluggish.

Japan – the second biggest market, with 15 per cent of total demand – is expected to increase consumption by 4.5 per cent over last year, according to Shearson. Mr Buxton points out that there is huge potential for growth in the Japanese packaging sector, where cans are continuing to replace bottles for beer.

While the rate of increase of consumption is slowing, overall consumption is still set to increase slightly this year. Shearson puts it at 14.61m tonnes, a rise of 1.7 per cent and a new high.

Combined LME and producers' primary stocks of aluminium have risen from a low of 1.4m tonnes, in May last year, to more than 1.6m tonnes. The stocks-to-consumption ratio was less than six weeks at the end of 1988, and Shearson estimates that it will be 6.3 weeks by the end of this year. The size of this year's surplus "should not hold any great terrors for the market," Shearson suggests.

Mr Buxton believes the bulk of the metal's price weakness is now in the past, and he expects an average LME cash price of 90 cents a lb this year and 80 cents a lb next year. Metals and Minerals Research Services is forecasting 85 cents a lb for this year, and 75 to 85 cents a lb next year.

However, prices could jump sharply if there is any interruption to the hard-pressed aluminium smelting industry. Shearson points out that alumina stocks are also low and expected to remain low, so that any problems would quickly affect smelter output.

In any event, Mr Buxton believes that, if his price forecasts are any where near correct, "it means two more good years for aluminium producers."

David Blackwell

Production, manufacturing and sales ('000 tones)

	1984	1985	1986	1987	1988
PRODUCTION:					
Bauxite	3,387	4,061	4,215	4,089	4,474
Zinc	34	22	5	31	46
Lead	4	3	1	5	7
Tin	1	1	-	-	-
Nickel	10	7	10	11	10
Magnesium chloride	119	117	108	118	152
Gold*	-	-	-	25	131
Silver*	-	-	-	-	295
PROCESSING:					
Alumina	1,012	1,187	1,459	1,469	1,667
Aluminium	52	82	102	108	109
Zinc	122	114	115	104	105
Lead	117	114	105	133	137
Copper	31	31	32	27	27
Tin	30	27	24	20	19
Nickel	8	5	9	9	8
Magnesium oxide (dead burned/high grade)	86	81	80	91	109
Others	29	32	33	38	42
SALES:					
Bauxite	1,424	1,379	1,349	1,464	965
Alumina	958	1,164	1,301	1,284	1,464
Aluminium	70	130	153	159	159
Zinc	125	113	124	131	149
Lead	118	127	122	143	143
Copper	76	70	56	44	42
Tin	31	28	34	33	35
Nickel	18	13	20	21	17
Magnesium oxide	104	86	81	96	111
Gold*	-	-	-	22	109
Silver*	-	-	-	-	218
Others	47	42	37	42	48

*Thousand ounces

Source: Billington International Metals

Kenneth Gooding on mining and the environment

Preparing for the green decade

"The strongest argument of the detractors are that the fields are devastated by mining operations ... the woods and groves are cut down, for there is need of an endless amount of wood for timbers, machines and the smelting of metals. And when the woods and groves are felled, then are exterminated the beasts and birds, very many of which furnish a pleasant and agreeable food for man. Further, when the ores are washed, the water which has been used poisons the brooks and streams, and either detroys the fish or drives them away ... Thus, it is said, it is clear to all that there is greater detriment from mining than the value of the metals which the mining produces."

THIS EXCERPT from the very first mining textbook, *De Re Metallica*, by Georgius Agricola, published in 1556, shows that the production of base metals has always caused concern among those who care about the environment.

However, today the so-called "green" lobby in the industrialised countries has developed considerable political clout. This is causing some metals producers to re-examine their priorities.

'The public thinks of deserted towns and scarred landscapes'

"The 1990s is going to be the decade of the environment, and by the time the year 2,000 comes, all of us will be committed environmentalists, like it or not, because the problems are real," Mr Roy Aitken, an executive vice-president of Inco, recently told the Canadian Institute of Mining and Metallurgy.

He urged the industry to become more politically involved and active:

"Let's acknowledge that the public at large think of us as people who work in holes in the ground. They think of big open pits. They think of tailings dumps, they think of blowing dust, they think of smoke emissions, they think of deserted towns and scarred landscapes, they think of everything that is negative in terms of our environmental impacts. Let's acknowledge the reality of that."

Independent analysts, who have looked carefully at the environmental issues, suggest that the likely impact on the production and use of metals is difficult to judge.

"But it may be the most important consideration for the mining and metals industry in the green 1990s," according to Mr Andrew Smith, an analyst with the UBS Phillips & Drew financial services group.

"And because environmental pressures will not go away, these changes may be more profound than those which followed the 1970s oil price shocks," he adds, in a detailed study in his latest Base Metals Outlook.

Mr Roy Aitken: 'By 2000, we'll all be environmentalists'

Mr Smith says the impact of increasing green concerns may be greater on demand for metals rather than on mining and refining.

"It is conceivable that environmentally-aware consumers in the 1990s will come to see goods more transparently, partly as a collection of raw material and energy inputs.

"Attributes of durability and recyclability will become even more important. Experimentation with metals and metal substitutes will increase. Where profitability and the environment are complementary – i.e. where industries can achieve cost savings in meeting these new, greener consumer demands – important implications for the intensity of metal use in the world economies could follow," he says.

On the supply side, Mr Smith points out that mineral-rich developing countries are becoming more sensitive to environmental issues, and the demands such countries are beginning to make can be met only by larger companies. "Undercapitalised, smaller companies will find it more difficult to gain entry to what were once easy third-world pickings. In this sense, big may be beautiful in the green 1990s."

Environmentalists see Antarctica as a major test

Mr James Stevenson, group environmental scientist with RTZ, the world's largest mining group, agrees that there is a clear evidence that the cost of environmental protection is going to go up in developing as well as industrialised countries. "Even if third-world countries don't have criteria matching those in the developed world, mining companies will have to comply with the higher standards," he points out.

"Pressure comes from the prospect of international scrutiny of their affairs."

US pollution regulations, mainly established over the past 15 years and now among the most exacting, indicate what the industry faces.

The Congressional Research Service (CRS) in 1986 estimated that compliance with the Clean Air Act alone added 9 cents to the cost of producing of a lb of copper (estimated then to be 92 cents a lb) and 4 cents to the cost of lead (24 cents).

US primary metals producers spend about 6 per cent of turnover on pollution control – 10 times the all-industries average. Canada's mining industry has put regulatory compliance costs at 8 per cent of operating costs.

Most developing countries do not have comprehensive environmental regulations – one reason why Chilean and Peruvian copper smelters remove only between a third and a half as much sulphur dioxide as in the US, according to the CRS.

However, the problems of enforcing regulations are likely to keep even the more environment-conscious developing countries lagging behind the developed world. Brazil's inability to curb unauthorised gold mining in Amazonia, which has led to rivers becoming polluted with mercury, highlights the problem.

But the situation of Brazil, with its tropical rain forest which is of importance to the health of the world as a whole, also shows that the developing countries may ultimately come under heavy pressure from lobbyists and governments in the developed world.

There is likely to be a growing number of "no-go" areas for mining, according to RTZ's Mr Stevenson.

Environmentalists see Antarctica as a major test. An Antarctic minerals convention was agreed in June 1988, allowing extraction within tight guidelines. But the pact has not yet been ratified, and a Greenpeace spokesman said moves by France and Australia to draw up a replacement conservation treaty could put a stop to any plans for mining on the continent.

LEGAL COLUMN

Guessing fee income proves a popular pastime

By Robert Rice, Legal Correspondent

THE American Lawyer's list of top 100 law firms ranked by gross fee income has set off a fresh round of speculation on the gross fee incomes of the top City law firms.

The pot was given another little stir by The Economist during September when under the heading "All's Fair in Love and Law", it had a guess at the gross fee incomes of the UK's top 25 law firms listed by size.

Clifford Chance it estimated, with a total staff of 1,649, had a gross fee income last year of between £85m and £114m.

It is not clear how this figure was arrived at, but it seems it must have been based, at least in part, on the further assertion that Clifford Chance now pulls in about £250,000 per fee earner per year. Then they added a margin for error.

Maths was never a strong a subject, but if Clifford Chance has 985 fee earners made up of 195 partners, 577 assistant solicitors, 206 articled clerks and 7 para-legals, an average fee income of £250,000 per fee earner would give the firm a gross fee income of more than £246m.

Perhaps The Economist meant the firm pulled in £250,000 per partner, or almost £49m from the partners, with the rest of the fee earners bringing gross income up to the £85m to £114m range. It is not clear, however.

Not surprisingly this has caused some interest in City legal circles.

Some firms, unable to contain themselves any longer have felt the need to confide in The Lawyer magazine on the subject.

D J Freeman & Co and Ashurst Morris Crisp, while not actually admitting that The Economist's estimates are right, are prepared to admit that they are fairly adjacent as far as their firms are concerned.

Partners at other firms, however, have suggested that The Economist's estimates are pretty laughable.

Good rule of thumb

One partner in a firm which is in the top 15 on the list even went *as far as to say that if* The Economist was right, they would all be bankrupt. Whether this is all bravado is hard to tell.

Until firms feel constrained to tell the world precisely what their annual fee income is, we shall never know.

Until then, since everyone else is having a go, it seems fair to indulge in a little speculation of our own.

In the old days it used to be a good rule of thumb to say that a solicitor would need to, or was expected to, bring in roughly three times salary or earnings in order to make a living.

This was worked out on the basis that his or her fee income would be split three ways: a third on overheads; a third for the firm; and a third for himself.

Picking on poor, or not so poor, old Clifford Chance again (well, they are the biggest), taking the average earnings of partners to be £100,000 a year, the average earnings of assistants to be £40,000 a year, average salaries for articled clerks to be £15,000 and average earnings of para-legals to be £25,000, we arrive at a total earnings bill of about £46m.

If this is multiplied by three according to our rule of thumb, the gross fee income of Clifford Chance would be somewhere around £138m.

Looking at it another way, if we assume that the average charging rates for the partners at Clifford Chance are £180 per hour, the average charging rates for all other fee earners are £90 an hour and we further assume (taking the Americans as a guide) that each fee earner bills about 1,800 billable hours a year, the gross fee income of Clifford Chance would be about £191m.

Maybe that is working them too hard and charging the clients too much. Certainly it is assuming far too many billable hours by the articled clerks. But making allowances for such factors we would not be at all surprised if the gross fee income of Clifford Chance turned out to be about £140m a year.

Whichever way you look at it, it's a fair bet that the firm is bringing in more than the £85m *to £114m* estimated by The Economist. But that's only a guess.

* * *

Irish law graduates have scored a notable victory in their battle with the Incorporated Law Society of Ireland. In the face of a storm of student protest (with a little help from the media and the *odd* politician), the society has abandoned the unofficial quota system it had been accused of operating through its professional examinations in order to restrict the number of entrants into the profession.

In what might be seen as a face-saving exercise, the society announced that its education committee had now concluded a comprehensive review of its training of future solicitors. In the light of the anticipated needs of the profession and the opportunities for qualified Irish solicitors within the European Community post 1992, it had decided to abandon the system it had been using for the past 10 years.

From now on all Irish law graduates will be exempt from the entrance exam, the Final Examination-First Part (FE-FP) provided their degrees include passes in the six subjects of the FE-FP.

The capacity of the society's law school will be significantly increased to accommodate more than the current 150 students each year (the figure at which the unofficial quota was set).

Those who are not exempt, non-law graduates, will require a 50 per cent pass in each of the six subjects of the FE-FP. Candidates passing three or more papers at one sitting will be able to carry them forward.

The society has also decided in a *somewhat* extravagant gesture to make the changes retrospective in respect of law graduates who failed the FE-FP in recent years (subjects which, incidentally, they had already passed at degree level).

"We have wiped the slate clean," Mr Maurice Curran, the society's president said. "We have abandoned the use of the exam as a control mechanism."

Well, *not* quite. What about the people for whom the exam was designed in the first place, the non-law graduates? Presumably it was not *just* the law graduates who fell foul of the unofficial quota system. Surely there were non-law graduates who failed the exam not because they were not up to the required standard but because the system could not accommodate them.

The society seems to have dug itself into a hole over this. The predicament it now finds itself in lends support to the calls from Irish politicians, most noticeably Mr John Bruton, *deputy leader of Fine Gael*, for the solicitors education and training system to be taken out of the exclusive control of the law society and placed on a statutory footing.

Meanwhile, the review of the education system undertaken by the society is to continue.

Slate wiped clean

The intention is to create an educational system that will not only fit in with the Single Market, but one which will provide reciprocity with other countries.

There are problems with reciprocity for the Irish however, according to Cliona O'Tuama, a solicitor with Linklaters & Paines and president of the Irish Solicitors in London Bar Association. One of them is the requirement that solicitors in Ireland have to pass two exams in the Irish language.

Until reciprocity has been sorted out, her advice to Irish law graduates who intend to pursue a career with an English firm is to qualify here. It will save a lot of time and effort in the long run, she says.

LEGAL APPOINTMENTS

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AUTHORISED UNIT TRUSTS

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	55.01	55.54xd	59.09	4.64	40000
Gilts & Fixed Int	6	108.2	108.2xd	114.7	8.72	40001
High Inc Equity	6	137.0	139.7	148.7	6.27	40002
Worldwide Bond	6	197.7	197.7xd	209.5	5.06	40003
Capital Growth						
American Growth	6	197.0	199.8	212.6	0.89	40004
Asian Pacific	6	111.8	113.9	121.2	1.07	40005
Assets & Earnings	6	161.9	165.4	176.0	2.10	40006
Capital Reserve Acc	0	86.73	86.73	86.73	4.61	40007
Capital Reserve Inc	0	78.99	76.99	77.01	5.19	–
Comdty & Energy	6	109.8	113.0xd	120.3	1.58	40008
1992 Enterprise	6	61.05	62.34	66.22	1.93	40097
Euro Capital Acc	6	90.59	97.38	103.6	0.72	40009
Euro Capital Inc	6	93.24	93.90	99.90	0.75	–
General	6	178.9	178.9xd	191.4	2.61	40010
International	6	54.63	55.50	59.05	0.85	40052
Japan	6	121.6	123.5	111.4	0.00	40011
Mastertrust	6	91.80	93.37	99.33	1.71	40012
UK Growth Acc	6	203.0	203.0	217.2	1.29	40013
UK Growth Dist	6	135.5	135.5	145.0	1.93	40014
US Emerging Cos	6	54.62	54.62	58.42	0.00	40015
Income & Growth	6	308.5	314.9	335.1	3.06	40016
Ethical	6	49.87	51.11	54.38	1.84	40017
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ						
Amer Inc & Growth	5½	33.37	33.37	35.62	2.87	[illegible]
European	5½	75.05	75.22	80.30	0.00	[illegible]

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Buckmaster Mangmt Co Ltd—Contd.						
Income	5	164.3	169.0	180.2	4.39	40210
(Accum Units)	5	320.5	331.2	351.4	4.39	40211
International	5	123.6	123.6	130.7	3.91	40212
(Accum Units)	5	170.0	170.0	179.9	3.91	40213
Smaller Co's	5	115.2	118.2	125.4	1.82	40214
(Accum Units)	5	126.7	130.0	137.9	1.82	40215
Inv Portfolio	2½	56.23	58.26	60.06	3.24	46359
(Accum Units)	2½	58.37	60.48	62.35	3.24	46358
High Income Port	3	49.03	49.43	51.22	6.17	46857
Burrage Unit Tst Mangmt Ltd (0905)F						
117 Fenchurch St, London EC3M 5AL 01-480 7216						
Sht Dtd Gilt & FI	1½	59.33	54.33	55.12	2.36	40216
CCF Foster Braithwaite UT Mngt (1100)F						
1 White Hart Yard, London SE1 1NX 01-407 5966						
F & BSel Intl Gwth	5½	49.97	49.97	53.84	1.39	46890
CCL Unit Trusts Ltd (1400)F						
74 Shepherds Bush Green, W12 8SD 01-740 7070						
UK General Tst	5½	56.73	57.71	61.72	2.23	40217
Global Tst	5½	46.81	47.35	50.64	2.01	40218
Recovery Tst	5½	50.64	50.64	56.27	1.92	40219
CIBC Unit Tst Managers plc (1200)H						
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01 234 6000						
Growth Fd Acc	5	113.0	114.4	120.7	4.34	40220
CS Fund Managers Limited (1000)H						
125 High Holborn, London WC1V 6PY 01-242 1148						
CS America	5	65.70	65.70	69.97	0.88	40221
CS International	5	62.55	62.55	66.54	1.54	40222
CS Japan	5	154.2	154.2	164.0	0.23	40223
CS Portfolio Inv ♦	5	75.85	75.85xd	80.69	1.69	40224
Canada Life Unit Tst Mgrs Ltd (1200)F						
High St, Potters Bar, Herts, EN6 5BA 0707 51122						
Can Gen Dist	5	146.5	150.9	158.8	2.91	40225
Do Gen Accum	5	250.4	254.9	268.3	2.91	40226
Do Income Dist	5	98.30	100.5	105.8	5.33	40227
Do Inc Accum	5	225.2	230.2	242.3	5.33	40228
Gilt & Fxd Int	5	35.86	35.94xd	37.83	8.48	40229

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Midland Personal Pension Unit Trust						
British	6	60.95	61.65	65.58	2.34	46496
European Growth	6	64.95	65.03	69.18	0.39	46497
Gilt & Fixed	6	50.00	50.00	54.29	10.24	46498
Income	6	57.23	58.12	61.83	3.92	46499
Japan Growth	6	61.22	61.59	65.52	0.00	46500
Managed	6	58.66	59.45	63.24	1.77	46504
Money Market	6	54.46	54.46	57.72	10.70	46501
North American	6	60.29	61.34	65.24	0.22	46503
Midland PSAVCS Unit Trust						
British	6	57.49	58.11	61.82	2.35	46712
European Growth	6	63.30	63.37	67.41	0.39	46651
Gilt & Fixed Int	6	49.72	49.72	52.89	10.24	46652
Income	6	57.85	58.70	62.53	3.93	46653
Japan Growth	6	63.53	63.89	67.97	0.00	46813
Managed	6	57.72	58.50	62.23	1.77	46654
Money Market	6	52.11	52.11	55.24	10.70	46814
North American	6	60.60	61.65	65.59	0.22	46815

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Provident Mutual Unit Tst Mgrs Ltd (0905)H						
25-31 Moorgate, London, EC2R 6BA 01-588 3963						
PM Equity Gth	5	122.9	124.1	132.0	2.61	41169
PM Income & Gth	5	101.6	102.8xd	109.3	4.00	41170
PM Nth Amer Gth	5	61.01	61.01	64.90	1.16	41171
PM European Gth	5	61.68	61.89	65.89	0.67	41172
PM Japan Gth	5	83.18	83.32	88.63	0.28	41173
PM Overseas Gth	5	57.54	57.54	61.21	0.43	41174

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ▽ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ◆ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh					031-225 1551	
Australasian Gold	5	16.77	17.00	18.08	0.00	41588
Pacific Basin	5	30.33	30.45	32.90	0.60	41589
Can Balncd Gwth $	5	51.44	51.44	54.72	0.20	41590
Ginnie Mae $	4	0.9622	0.9622	1.0022	7.72	41591
Penny Share	6¼	30.58	30.58	32.58	0.50	41592
Wellington Fund Mngrs Ltd (1200)F						
2 London Bridge, SE1					01-407 4404	
Wellington Income	5¼	138.8	140.5	149.5	4.92	41593
Wellington Growth	5¼	224.8	227.0	241.5	1.17	41594
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW					0202 299432	
Wessex UK Gwth	4½	116.00	117.20	122.10	2.85	41595
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT					01-606 9132	
Challenger $ F	2½	58.74	58.74	60.21	0.48	41596
Short Dtd Gilt ¶ F	1¼	80.98	80.98	82.05	7.16	41597
U.S. Govtmt Bond ¶ F	1¼	0.5697	.5697	.5772	0.00	41598
Wilfbro Financial Services Ltd (0905)F						
PO Box 515 Austin Friars, London EC2					01-588 7511	
Aust Future W'wide	5	202.4	205.0	218.0	2.42	40677
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD					01-405 8331	
Convtbl & Equity	5	63.92	66.91	71.17	6.66	41599
European	5	77.56	77.69	82.85	0.09	46303
Far Eastern	5	62.82	67.61	71.92	0.39	46304
Growth Inc	5	85.52	88.66	94.31	1.43	41600
Growth Acc	5	85.60	88.73	94.38	1.43	46476
Income Inc	5	82.54	85.03	90.46	4.70	41601

	Bid Price	Offer Price	Yield Gross	City-line
Albany Life Assurance Co Ltd – Contd.				
High Income Fd Acc(z)	120.4	126.7	–	41696
Intl Man Fd Acc(z)	432.9	455.7	–	41697
Japan Fd(z)	312.9	329.4	–	41699
UK Smlr Co's Fd Acc(z)	121.9	128.2	–	41704
Europlus Metro	120.9	127.2	–	47025
Global Metro	110.6	116.4	–	46534
Sunrise Metro	124.3	130.3	–	47026
UK Metro	112.8	118.7	–	46537
Nth American Fd Acc(z)	213.4	224.6	–	41700
Pac Basin Fd Acc(z)	163.6	172.2	–	41701
Prop Fd Acc(z)	348.9	367.2	–	41702
Millennium	100.8	106.1	–	47027
Multiple Inv Acc(z)	737.4	776.1	–	41703
Pension Funds				
Brit Blue Chip Acc(z)	157.3	165.7	–	41705
Eq Pen Fd Acc(z)	2120.6	2232.1	–	41706
Euro Fd Acc(z)	364.9	384.0	–	41707
Fixed Int. Acc.(z)	713.9	751.4	–	41708
Gt Money Pn Acc(z)	438.2	461.21	–	41709
High Interest	148.4	156.2	–	46536
High Income Fd Acc(z)	127.6	134.2	–	41710
Intl Man Fd(z)	669.2	704.4	–	41711
Jap Pen Fd Acc(z)	448.2	471.8	–	41712
UK Smlr Co's Fd Acc(z)	131.0	137.0	–	41716
Europlus Metro	131.0	137.8	–	47028
Global Metro	118.7	124.9	–	46535
Sunrise Metro	138.9	146.2	–	47029
UK Metro	122.1	128.5	–	46538
N Am Pn Fd Acc(z)	269.3	283.4	–	41713
Pac Basin Fd Acc(z)	197.6	207.9	–	41714
Property(z)	615.8	648.1	–	41715
Mixtle Inv Pens Acc(z)	1514.1	1593.8	–	41717

	Bid Price	Offer Price	Yield Gross	City-line
Citicorp British National				
Perrymount Road, Haywards Heath			0444 414112	
Managed	258.7			
International	274.8			
Property	277.2			
Equity	360.3			
New Technology	190.4			
American	127.8			
Orient	114.4			
European	109.2			
Fixed Interest	175.8			
Deposit	144.2			
Managed Series 2	257.6			
Property Series 2	278.9			
International Series 2	294.5			
Equity Series 2	369.1			
SV Global Gwth Ser 2	139.3			
Managed Pension Accum	353.6			
Managed Pension Cap	251.8			
Property Pens Accum	373.3			
Property Pens Cap	245.7			
Equity Pension Accum	499.3			
Equity Pension Cap	328.6			
New Tech Pens Accum	227.7			
New Tech Pens Cap	164.3			
Intl Pens Accum	416.1			
Intl Pens Cap	273.9			
Fixed Int Pens Accum	219.8			
Fixed Int Pens Cap	144.2			
Anglian Fund	107.1			
Celebration Fund	91.6			

City of Edinburgh Life Assurance

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath				0444 458721
American	126.0	133.0	–	43285
Building Soc. Fd	174.8	184.0	–	43286
Balanced	292.0	308.0	–	43287
European	191.0	202.0	–	43289
GT Managed	191.0	202.0	–	43290
Gartmore Mngd	128.0	135.0	–	43291
German	138.0	146.0	–	43292
Gilt	181.0	191.0	–	43293
Global	50.0	53.0	–	46834
High Inc	120.8	127.0	–	43294
International Equity	203.0	214.0	–	43295
Japan	277.8	292.0	–	43296
Managed	64.0	68.0	–	43297
Property	294.0	310.0	–	43298
R. W. Imperial Gold	155.0	164.0	–	43299
UK Equity	363.0	383.0	–	43300
Pension Funds				
American	147.0	156.8	–	43301
Building Soc. Fd	177.8	187.0	–	43302
Balanced	227.8	239.0	–	43303
European	194.8	205.0	–	43305
German	122.0	129.0	–	43308
Gilt	159.8	168.0	–	43309
International Equity	147.0	155.0	–	43310
Japan	150.0	158.0	–	43311
Managed	67.8	71.0	–	43312
Property	225.0	237.0	–	43313
UK Equity	333.0	351.0	–	43314
Professional Life Assurance Co Ltd				
Frobisher Hse, Nelson Gate, Southampton				0703 232323
Pensions Managed Fund	97.05	102.62	–	42263
Pensions Cash Fund	80.21	84.43	–	42264
Prolific Life & Pensions Ltd				
Stramongate, Kendall, Cumbria LA9 4BE				0539 733733

	Bid Price
Prudential Holborn Pensions Ltd—Contd.	
European	106.7
Special Situations	119.9
Communications	110.2
Smaller Companies	114.1
International Small Cos.	146.4
Prudential Pensions Limited	
Holborn Bars, London EC1N 2NH	
Discretionary Sept 20	£166.38
Equity Sept 20	£182.50
International Sept 20	£28.50
Intl Bond Sept 20	£12.30
Fixed Int Sept 20	£73.10
Index Linked Sept 20	£62.93
Property Sept 20	£116.10
Cash Sept 20	£21.4827
Pre-Linked Retirement Plan	
Managed Sept 26	408.4
Cash Sept 26	203.5
Prudential Pensions Investment Acc	
Pens Mngd Sept 27	162.7
Pens UK Eq Sept 27	315.6
Pens Intl Sept 27	199.6
Pens Fixed Sept 27	160.2
Pens Index Lk Sept 27	159.8
Pens Cash Sept 27	132.8
Regency Life Assurance Co Ltd	
Regency Hse, Lanark Sq, London E14	
Aggressive Ptflio Fd	123.0
Balanced Ptflio Fd	521.1
Cautious Ptflio Fd	123.5
Elite Fund	115.8
European Fund	94.8
Far East Fund	110.4
Fixed Interest Fund	242.0
International Fund	291.3

[illegible]

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

LOANS

Building Societies

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
[illegible]	[illegible] 12¾pc 2.10.89	99 [illegible]	15.1[illegible]	4.9	26Mar 2Oct	–
[illegible]	Do. 11⅞pc 6.11.89	99 [illegible]	14.[illegible]	31.3	30Apr 6Nov	–
[illegible]	Do. 12⅝pc 4.12.89	99 [illegible]	14.[illegible]	28.4	28May 4Dec	–
[illegible]	Do. 12⅞pc 2.1.90	99 [illegible]	14.[illegible]	30.5	2Jan 2Jul	–
[illegible]	Do. 12⅞pc 29.1.90	99 [illegible]	14.[illegible]	23.6	29Jan 23Jly	–
[illegible]	Do. 12⅞pc 26.2.90	99 [illegible]	14.[illegible]	21.7	26Feb 20Aug	–
[illegible]	Do. 12⅝pc 19.3.90	99 [illegible]	14.5[illegible]	–	19Mr 13Sep	–
[illegible]	Do. 13¼pc 23.4.90	99 [illegible]	14.5[illegible]	18.9	23Apr 17Oct	–
[illegible]	Do. 13pc 14.5.90	99 [illegible]	14.[illegible]		14May 8Nov	–
[illegible]	Do. 13⅝pc 4/6/90	99 [illegible]	14.5[illegible]	–	4Jun 30Nov	–
[illegible]	Do. 14⅞pc 2.7.90	99 [illegible]	14.[illegible]	–	2Jly 26Dec	–
[illegible]	Do. 13⅝pc 23.7.90	99 [illegible]	14.4[illegible]			–
[illegible]	Do. 3⅞pcIL Ln 2021	105½ [illegible]	4.[illegible]	22.6	30Jan 31Jul	3465

Public Board and Ind.

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
25	Met. Wtr. 3pc 'B'	46xd	10.62	1.8	1Mar 1Sep	3361

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	40	3.50	8.75	1.11	1May 1Nov	2763
4	Do. 6pc 28 Stb. Ass.	40xd	3	7.50	1.2	1Feb 1Aug	2762
–	Do 4pc Mixed Ass.	40xd	2	5.00	3.4	1Apr 1Oct	2761
1	Hung. '24 Ass.	80	2.75	3.57	3.5	1May	2935
40	Hydro Quebec 15pc 2011	130⅛	15.00	11.23	27.10	31May 30Nov	–
30	Iceland 14½pc Ln 2016	122¼	14.50	11.85	29.12	31Jan 31Jul	–
30	Ireland 9¾pc '91-96	91¾xd	9.75	11.50	21.8	1Mar 1Sep	3002

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
8,974.1	Abbott Laboratories	39⅞xd	$1.40	2.2	11.7	Fb My Ag Nv	1503
247.4	Allegheny & W 1c	476p	30c	4.0	–	–	–
1,979.3	Amax $1	16⅞xd	80c	3.1	7.8	Mr Jn Se De	1581
394.4	Ambase Corp $1	9¼xd	20c	1.3	24.2	Jan Mar Jn De	2915
869.4	Amdahl 5c	828pxd	b10c	0.8	31.1	Nv Mr Jn Ag	–
2,874.3	Amer. Cyanamid $5	31¼	$1.35	2.7	27.2	Mr Je Se De	–
11,007.0	Amer. Express 60c	22¼xd	84c	2.4	3.7	Fb My Ag Nv	1594
1,087.3	Amer. Medical Int. $1	13½	72c	3.4	9.1	Fb My Au Nv	–
28,352.5	American T. & T. $1	26¼	$1.20	2.9	27.5	Fb My Ag Nv	1597
[illegible]	Ameritech $1	39[illegible]	$2.92	4.7	28.3	Fb My Ag Nv	–
–	Asiamerica Equity	537p	–	–	–	–	–
4,018.4	BankAmerica $1	22⅜xd	60c	1.7	17.5	Fe My Au No	1744

[illegible]

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

ISLE OF MAN (**)

LUXEMBOURG (**)

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

Money Market Bank Accounts

[illegible]

Provincial Bank PLC
30 Ashley Rd, Altrincham, Cheshire 061-928 9011
H.I.C.A. (£1,000+) 13.125 10.27 14.36 –

Royal Bank of Scotland plc Premium Acc
42 St Andrew Sq, Edinburgh EH2 2YE. 031-228 5650

£50,000+	13.00	10.17	14.09	–
£25,000–£49,999	12.70	9.93	13.75	–
£10,000–£24,999	12.30	9.62	13.30	–
£2,500–£9,999	11.75	9.19	12.69	–

Save & Prosper/Robert Fleming
28 Western Rd, Romford RM1 3LB. 0708 766966
H.I.B.A. 12.00 9.39 13.12 –

TSB Bank plc England & Wales Division
100 Lower Thames St, London EC3R 6AQ 01-623 6000

HICA £1–£499	6.50	5.90	7.33	–
£500–£1,999	9.00	7.50	10.00	–
£2,000+	11.00	9.00	12.00	–

Tyndall & Co Ltd
29-33 Princess Victoria St, Bristol 0272 732241

Demand Acc	13.00	10.17	14.08	–
Money Acc	13.20	10.25	14.20	–
Client Plus Acc	12.50	9.78	13.52	–

J. Henry Schroder Wagg & Co Ltd
Enterprise Ctre, Northarbour Rd, Portsm'th 0705 372222

Special Acc	12.375	9.68	13.49	–
£10,000 and above	12.625	9.88	13.79	–

Western Trust High Interest Cheque Acc
The Moneycentre, Plymouth PL1 1SE 0752 224141

£25,000+	13.50	10.56	14.64	–
£5,000–£24,999	13.25	10.36	14.36	–
£1,000–£4,999	13.00	10.17	14.08	–

Wimbledon & South West Finance Co Ltd
114 Newgate St, London EC1 7AE 01-606 9485
High Int. Cheque Acc. 13.50 10.56 14.64 –

NOTES—Gross rate to those exempt from composite rate of tax Net actual rate after deduction of CRT Gr Equiv CAR: Gross equivalent to basic rate taxpayers-compounded annual rate Int. Cr frequency interest credited

Money Market Trust Funds

[illegible]

UNIT TRUST NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. b Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Previous day's price. ♦ Guernsey gross. θ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ¶ Yield column shows annualised rates of NAV increase. xd ex dividend. (**) Funds not SIB recognised.

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
16,542.2	Ford Motor $1	31½xd	$3.00	6.0	28.7	Mar Jun S D	2615
32,094.9	Gen. Elect. 63c	35⅛	31.64	3.0	7.6	Ja Ap Je Oc	2675
—	♥General Host Corp $1	491p	30c	3.9	13.12	—	—
3,275.1	Gillette $1	28¾	96c	2.2	27.1	Mar Jun S D	2695
248.9	Gt American Bank Bk $L	759p	20c	1.7	28.10	Fb My Aug Nv	—
813.6	Greyhound $1½	21	$1.32	4.0	30.5	Ja Ap Jy Oc	2778
713.0	Hasbro Inc 50c	11½	16c	0.7	1.8	Ja Mo Au My	—
2,251.7	Honeywell $1½	51½xd	$2.10	2.6	22.8	Mar Jun 3 D	2919
2,476.9	Houston Inds.§	20¾	$2.96	9.0	10.11	Mr Jn Se De	—
40,002.9	IBM Corpn $1¼	67xd	$4.84	4.6	5.5	Mar Jun 3 D	2986
1.17	Image Storage/I.Sys.Ic.	55p	—	—	—	—	2961
1,497.2	Ingersoll-Rand $2	28¼xd	$1.20	2.7	16.5	Mar Jun S D	2979
1,959.9	Lockheed Crpn. $1	29⅝xd	31.80	3.8	15.2	Mar Jun S D	—
315.5	Lone Star Inds $1	19¼xd	$1.90	6.3	30.8	My Se N Mar	3216
775.5	Louisiana Land 15c	25xd	$1.00	2.5	29.8	Mar Jun 3 D	3222
743.1	Lowe's 50c	18¾	48c	1.6	11.7	Jan Ap Jly Oc	—
1,272.5	Manuf. Hanover $1	26½	$3.28	7.8	26.6	Ja Ap Jly Oc	3279
1,954.3	Merrill Lynch $1	18½	$1.00	3.4	31.10	Feb My Au N	3351
589.4	Molex Inc.	2323p	3.2c	—	—	—	3397
4,886.5	Morgan (JP) $2½	27⅛xd	31.66	3.9	21.12	Jan Ap Jly O	3418
25,269.9	Morris (Phillip)	101½	$4.50	2.8	—	—	5161
10,607.4	NYNEX $1	49½	$4.36	5.6	27.6	F May Au N	4740
3.79	N'wide Legal Serv.§	28p	—	—	—	—	5121
383.4	PHH Corp. §	22¾	$1.12	3.1	4.4	Ja Ap Jy Oc	—
—	♥Pacific Agr.§	212p	—	—	—	—	—
1,756.8	Pacificorp $3¼	25¼xd	$2.76	6.6	18.7	Feb My Ag Nv	—
11,947.8	Pacific Telesis 10c	27¼	$1.88	4.3	12.85	Fe My Au No	—
786.3	Pall Corp. 25c	11¼	48c	1.4	24.1	Fe My Au No	—
2,041.9	Pennzoil $3 1/3c	49¼xd	$3.00	3.8	29.8	Mar Jun 3 D	3630
3,065.9	Quaker Oats $5	38¾	31.20	2.0	20.6	Jly Oc Jan Apr	3738
742.2	Rep NY Corpn $5	29¾xd	$1.28	2.7	12.9	Jan Apr Jly O	3814
4,255.9	Rockwell Intl. $1	14⅝xd	78c	3.4	9.8	Mr Jn Se De	3847
7,462.2	Sears, Roebuck 75c	25⅜	$2.00	4.9	23.8	Jan Apr Jly Oc	5191
10,391.9	Southwestern Bell $1	34⅝	$2.60	4.8	5.7	Fb My Ag No	—
2,614.8	Sun Co. Inc. $1	24⅞xd	$1.80	4.6	7.8	Mr Jn Se De	4135
1,706.4	TRW Inc. 62½c	28⅜	$1.72	3.8	8.8	Ma Jn Se De	4318
1,158.2	TW Services $5	22⅞	10c	0.3	11.11	Fe My Au No	—
5,404.3	Tenneco $5	36½	$3.04	5.3	8.8	Mr Jn Sp Oc	4194
7,598.8	Texaco $6.25	31⅛xd	$3.00	6.1	30.8	Mr Je Se De	4200
2,380.8	Texas Instr. $1	23¾xd	72c	1.9	27.6	JAJO	5033
8,170.5	Time Inc. $1	85⅜	$1.00	0.7	22.2	Mr Jn Se De	4234
595.9	TRINOVA Corp.	17¼	68c	2.5	10.8	Mr Jn Se De	4309
6,157.4	USX $1	20⅛xd	$1.40	4.4	2.5	Mr Jn Se De	4380
230.4	♥Uallab	248p	—	—	—	—	—
4,492.9	Utd. Technologies	34¼xd	$1.60	3.0	23.5	Mr Jn Sp Oc	4381
—	♥Utilitech Inc.	146p	—	—	—	—	—
8,766.2	US West§	43¼	$3.76	5.4	14.4	Fb My Ag No	—
9,134.7	Waste Management $1	48½xd	60c	0.9	16.6	Ap Jly Oc Jan	4439
1,232.4	Whirlpool $1	17¼	$1.10	3.9	28.2	Mr Jn Se De	—
2,221.1	Whitman Corp.	19⅜	$1.02	3.3	6.6	Ap Jy Oc Ja	2951
2,721.5	♥Woolworth $3½	41⅛	$1.88	2.9	26.1	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
—	♥ABM Gold Corp §	156p	—	—	—	—	—
—	♥Abbot Energy Corp.	24½p	—	—	—	—	—
864.0	♥Amer. Barrick Res.	19	—	—	—	—	—
—	♥Armeno	11½p	—	—	—	—	—
—	♥Augmitto Expln.	11½p	—	—	—	—	—
1,489.4	Bk. Montreal §	16¼	$2.12	7.1	2.8	Fb My Ag Nv	—
1,559.9	Bk. Nova Scot. §	887p	92c	5.6	30.6	Ja Ap Jn Oc	—
—	♥BC Gas $1	769p	60c	4.2	30.12	Fe My Au No	—
6,298.7	BCE §	21¾	$2.44	6.2	12.6	Ap Jy Oc Ja	—
1,035.4	♥Brascan§	15¼	88c	3.1	28.10	Ja Ap Jy Oc	—
26.9	♥Breakwater Res.	120p	10c	4.5	—	—	—
2,466.0	Can. Imp Bank§	15¼	$1.24	4.3	29.6	Fe My Au No	—
—	Central Capital "A" §	515p	—	—	—	—	—
—	♥Corona Corp.	450p	—	—	—	—	—
59.2	♥Coast TVX Min.	365p	—	—	—	—	—
—	♥Derlan Inds. §	548p	11.75c	1.2	3.6	Mr Jn Se Oc	—

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES—Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

[illegible]	[illegible]	20Do. Wrrnts	28	–	–	–
10¼	5	Wilton Group 1p	7½	–	–	–

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend; cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	[illegible]	
[illegible] & Rose £1 γ	[illegible]	
Finlay Pkg. 5p γ	81	
Holt (Jos) 25p γ	1343	–5
Arnotts	[illegible]	
Carroll (P.J.) γ	[illegible]	
Hall (R. & H.)	100	
Heiton Hldgs. γ	90	–2

IRISH

Cap. 8½% Ln. 1991	£97¼	–½
9pc Cap Ln. 1996	£98¾	–⅛
Fin. 13% 97/02	£118	–½
For Irish Ropes see IRG		
IRG	212	
United Drug	140	

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	18
Amstrad	11
BAT	80
BOC Grp	42
BSR	6½
BTR	32
Barclays	42
Blue Circle	24
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	46
Charter Cons	48
Comm Union	32
Courtaulds	30
FKI	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	100
Jaguar	28
Ladbroke	28
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	30
Morgan Grenfell	24
Nat West Bk	25
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	20
[illegible]	42
Rank Org Ord	60
Reed Intnl	34
STC	32
Sears	10
Smithkline Bchm. A	50
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property

Brit Land	32
Land Securities	52
MEPC	58
Randsworth	28

Oils

Brit Petroleum	21
Burmah Oil	50
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines

Cons Gold	150
Lonrho	30
RTZ	48

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Bundesbank holds the key on rates

IT WAS touch and go as to whether the Bank of England signalled a rise in bank base rates on Friday, but the authorities decided that the situation did not warrant it, as of then anyway.

The decision not to increase rates was made easier by signs of greater co-operation within the Group of Seven. It may not have been coincidence that on the day when the market was becoming increasingly nervous about a rise in base rates, central banks other than the Bank of England were reported to have provided support for sterling.

Publicity was given to the fact that the Bank of Japan bought the pound against the dollar in Tokyo on Friday, and that the US Federal Reserve and West German Bundesbank may have been involved in similar action. This leaves open the question about the next move on interest rates by the West German Bundesbank.

Fear of higher German rates has been an important factor putting pressure on the pound, but Mr Chris Tinker, currency analyst at UBS Phillips & Drew, believes the market "has probably got ahead of itself".

The Bank of England obviously has a view on this, and it is not out of the question that it was the subject of a "full and frank discussion" at the recent Group of Seven meeting in Washington, according to Mr Tinker.

Analysts generally agree that the pound will be held above DM3.00 in the foreseeable future, even if this means persistent support for the currency. It was noticeable that in spite of the Bank of England's failure to raise rates on Friday, sterling held above a technical support level of DM3.0225.

The view from London on Friday evening was that the UK authorities would prefer to blame the Bundesbank for any rise in rates, and that if base rates are forced up to 15 per cent by the end of this week it will be part of a general move in Europe, reacting to Thursday's Bundesbank council meeting.

Nevertheless, the German central bank has shown in the past that it does not like being told what to do by the market, and it could be that the Bank of England believes it can call the market's bluff on sterling because it does not expect an imminent rise in German rates.

Mr Tinker believes the UK authorities may be able to hold base rates at 14 per cent if the Bundesbank merely increases its Lombard emergency financing rate by ½ point, but he concedes that pressure on sterling must grow if there is a rise of a full point in Germany.

It is argued in Germany that the Bundesbank needs to tighten its monetary stance, because of demand pull and cost push inflationary pressure. Demand pull is coming from rising prices of raw materials at a time of high demand for German exports, and cost push stems from accelerating wage rises.

German inflation moved up to 3.1 per cent in September from 2.9 per cent in August and M3 money supply growth of 5.2 per cent in August was above the Bundesbank's target of 5 per cent.

The market will inevitably become increasingly nervous in the run up to Thursday's Bundesbank meeting, but it is quite possible that the central bank will wait a little longer before increasing rates. Mr Robin Hubbard at Paribas Capital Markets points to the important annual congress of the German metal workers union on October 22. A rate increase at the council meeting on October 19, rather than this Thursday, would provide a timely signal to this gathering.

Colin Millham

£ IN NEW YORK

Sep.29	Close	Previous Close
£ Spot	1.6190-1.6200	1.6005-1.6115
1 month	0.76-0.74pm	0.68-0.67pm
3 months	2.20-2.17pm	2.02-1.99pm
12 months	7.70-7.60pm	7.40-7.30pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Sep.29	Previous
8.30 am	91.6	91.2
9.00 am	91.6	91.2
10.00 am	91.7	91.2
11.00 am	91.7	91.2
Noon	91.6	91.2
1.00 pm	91.5	91.2
2.00 pm	91.5	91.1
3.00 pm	91.4	91.1
4.00 pm	91.4	91.2

CURRENCY RATES

Sep.29	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling ‡	-	1.26447	1.46893
U.S Dollar	7	1.27089	1.10522
Canadian $	12.36	1.50029	1.30151
Austrian Sch.	5	16.9117	14.5138
Belgian Franc	7.75	50.3717	43.3469
Danish Krone	9½	9.34104	8.04603
Deutsche Mark	5.00	2.40046	2.06345
Neth.Guilder	6.00	2.71081	2.33048
French Franc	9½	8.12734	7.00160
Italian Lira	13½	1741.13	1506.75
Japanese Yen	3¼	178.814	153.958
Norway Krone	8	8.89650	7.61997
Spanish Peseta	-	152.066	131.157
Swedish Krona	9½	8.21249	7.08117
Swiss Franc	5.5	2.08236	1.78604
Greek Drach.	20½	210.159	182.168
Irish Punt	-	0.90012	0.774618

‡ Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Sep.28

CURRENCY MOVEMENTS

Sep.29	Bank of England Index	Morgan** Guaranty Changes %
Sterling	91.4	-20.1
U.S Dollar	69.5	-8.2
Canadian Dollar	104.3	+0.9
Austrian Schilling	107.2	+10.1
Belgian Franc	106.4	-5.8
Danish Krone	104.0	-0.9
Deutsche Mark	114.0	+21.3
Swiss Franc	107.7	+16.4
Guilder	110.9	+13.7
French Franc	100.1	-15.8
Lira	98.8	-18.9
Yen	140.0	+69.8

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are for Sep.28.

OTHER CURRENCIES

Sept.29	£	$
Argentina	1053.95-1062.75	650.00-655.00
Australia	2.0835-2.0860	1.2860-1.2870
Brazil	6.1260-6.1605	3.7780-3.7970
Finland	6.9225-6.9350	4.2760-4.2780
Greece	264.00-268.25	162.60-165.25
Hong Kong	12.6360-12.6485	7.8010-7.8030
Iran	117.00*	72.00*
Korea(Sth)	1070.55-1087.85	667.50-672.70
Kuwait	0.48180-0.48290	0.29670-0.29720
Luxembourg	63.40-63.50	39.25-39.35
Malaysia	4.3500-4.3610	2.6875-2.6895
Mexico	4196.45-4215.25	2588.00-2598.00
N. Zealand	2.7385-2.7445	1.6905-1.6935
Saudi Ar.	6.0900-6.0955	3.7500-3.7510
Singapore	3.1725-3.1780	1.9580-1.9600
S. Af (Cm)	4.3510-4.3620	2.6900-2.6930
S. Af (Fn)	6.3585-6.4860	3.9215-4.0000
Taiwan	41.35-41.45	25.50-25.55
U.A.E.	5.9635-5.9685	3.6720-3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

Sept.29	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	13¾-13⅝	14-13⅞	14⅝-14½	14¾-14⅝	14¾-14⅝	14⅞-14⅝
US Dollar	9¼-9⅛	9⅛-8⅞	9⅛-9	9⅛-9	9⅛-9	9⅛-8⅞
Can. Dollar	11⅞-11⅝	12-11¾	12⅛-11⅞	12⅛-11⅞	12⅛-11⅞	11⅞-11⅝
D. Guilder	7⅝-7½	7⅝-7½	7¾-7⅝	8-7⅞	8⅛-7⅞	8⅛-7⅞
Sw. Franc	7¼-7	7⅝-7⅜	7⅝-7⅜	7⅞-7¾	7⅞-7¾	7⅞-7¾
Deutschmark	7⅞-7⅝	7⅝-7½	7⅞-7⅝	8⅛-7⅞	8-7⅞	8-7⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

Sep.29	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	0.976	1.576	2.949	220.0	10.	2.556	3.332	2152	1.859	61.90
S Fr.	0.382	0.616	1.154	86.07	3.912	1	1.303	842.0	0.727	24.22
H Fl.	0.293	0.473	0.885	66.03	3.001	0.767	1	646.0	0.558	18.58
Lira	0.453	0.732	1.370	102.2	4.646	1.188	1.548	1000.	0.864	28.76
C $	0.525	0.848	1.587	118.4	5.381	1.375	1.793	1158	1	33.31
B Fr.	1.576	2.545	4.764	355.4	16.15	4.129	5.382	3477	3.002	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

Rates likely to trade nervously

THE BANK of England was faced with the choice of signalling a rise in UK bank base rates on Friday or declining to accept any offers for bills at the weekly Treasury bill tender, including the first supplementary offer of £200m 9-week bills.

This was because the fear of higher base rates led banks and discount houses to bid for bills at rates unacceptable to the central bank.

UK clearing bank base lending rate
14 per cent
from May 24

In the event, the authorities decided not to allot any bills at the weekly tender, including the supplementary offer. The last time this happened was on April 21, the day after a rise of ½ point in the West German discount rate and following a figure showing larger than expected UK bank lending.

Interest rates in Europe this week will trade nervously ahead of Thursday's Bundesbank council meeting, with credit conditions in Frankfurt likely to be tightened by the recent central bank intervention to depress the dollar. Bundesbank sales of dollars for D-Mark's results in a drain of liquidity in the domestic banking system.

The Bank of Japan is expected to keep its monetary stance tight this week, to prevent a strengthening of the yen against the dollar from encouraging the market to push interest rates lower, even though credit conditions should improve as demand for money fades at the end of the month. Dealers suggested at the weekend that the current situation means the Bank of Japan will be reluctant to let rates move lower until it can be sure the firm yen has taken root, and it may take at least a month to confirm the trend.

POUND SPOT- FORWARD AGAINST THE POUND

Sept.29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6160-1.6305	1.6145-1.6155	0.74-0.71cpm	5.39	2.12-2.08pm	5.20
Canada	1.9045-1.9160	1.9045-1.9055	0.41-0.32cpm	2.30	1.10-0.96pm	2.16
Netherlands	3.41-3.43½	3.41-3.42	1¾-1⅝cpm	6.37	5⅜-5¼pm	6.22
Belgium	63.50-63.90	63.40-63.50	30-28cpm	5.48	85-81pm	5.23
Denmark	11.76-11.84½	11.76-11.77	4⅝-4¼orepm	4.59	12⅞-12⅛pm	4.23
Ireland	1.1350-1.1405	1.1370-1.1380	0.40-0.35pm	3.96	1.15-1.05pm	3.87
W. Germany	3.02-3.04	3.02-3.02½	1⅝-1½pfpm	6.70	4⅝-4½pm	6.20
Portugal	255.50-258.25	255.50-256.00	22-3cpm	0.59	13-64dis	-0.60
Spain	192.00-194.85	192.10-192.40	1-13cdis	-0.44	7-17dis	-0.25
Italy	2205½-2219	2205½-2206½	5-3lirepm	2.18	12-10pm	1.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Sept.29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	FRIDAY SEPTEMBER 29 1989: US Dollar Index	% change since Dec.30 '88	Pound Sterling Index	Local Currency Index	% change local currency since Dec.30 '88	Gross Div. Yield	THURSDAY SEPTEMBER 28 1989: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1989 High	1989 Low	Year ago (approx)
Australia (85)	154.76	+7.1	142.08	132.43	+17.6	4.98	153.46	141.49	131.54	157.14	128.28	138.86
Austria (19)	161.19	+68.0	147.98	156.82	+76.9	1.56	160.84	148.11	157.08	162.96	92.84	87.50
Belgium (63)	144.27	+6.8	132.44	140.17	+12.8	3.95	143.95	132.72	140.58	144.47	125.58	120.76
Canada (123)	149.93	+19.4	137.64	127.95	+17.9	3.16	149.40	137.75	127.71	153.59	124.67	119.29
Denmark (36)	199.36	+17.0	183.02	197.53	+24.3	1.61	198.47	182.99	197.66	219.89	165.35	132.30
Finland (26)	125.35	-4.2	115.08	112.52	-1.6	2.46	123.14	113.53	111.17	159.16	123.12	114.41
France (126)	138.93	+20.8	127.54	138.33	+26.6	2.72	139.67	128.78	139.67	139.67	112.57	96.76
West Germany (97)	100.75	+14.5	92.49	98.03	+20.8	2.09	101.09	93.21	98.89	102.43	79.56	79.49
Hong Kong (48)	116.53	+4.2	106.98	116.72	+4.2	4.84	116.62	107.52	116.82	140.33	86.41	99.98
Ireland (17)	160.11	+21.5	146.98	158.43	+28.4	2.79	160.25	147.75	159.40	166.69	125.00	130.62
Italy (97)	95.04	+11.6	87.24	96.95	+16.8	2.38	94.95	87.55	97.06	96.73	74.97	75.01
Japan (455)	192.09	+0.3	176.34	169.51	+12.0	0.47	190.70	175.83	169.37	200.11	164.22	161.25
Malaysia (36)	203.63	+41.9	186.94	210.85	+40.8	2.47	203.30	187.45	210.62	203.63	143.35	138.08
Mexico (13)	307.96	+90.3	282.71	873.08	+115.7	0.58	310.81	286.57	880.14	321.99	153.32	155.39
Netherland (43)	130.32	+15.9	119.64	125.74	+22.4	4.22	129.99	119.85	126.04	130.89	110.63	103.33
New Zealand (20)	82.27	+21.7	75.53	73.92	+29.7	4.85	82.65	76.21	74.35	88.18	62.64	70.32
Norway (24)	186.66	+34.4	171.36	174.94	+41.3	1.48	188.44	173.74	177.31	198.39	139.92	113.12
Singapore (26)	163.03	+30.3	149.66	147.18	+31.3	2.00	162.82	150.12	147.55	170.62	124.57	118.41
South Africa (60)	158.55	+35.7	145.56	137.26	+39.7	4.12	159.34	146.91	136.49	160.23	115.35	104.86
Spain (43)	168.04	+13.2	154.26	161.24	+18.7	3.41	168.70	165.55	162.15	169.75	143.14	138.98
Sweden (35)	182.33	+26.1	167.39	173.16	+32.1	1.98	180.60	166.52	172.25	188.94	138.45	120.16
Switzerland (64)	91.17	+16.8	83.70	91.71	+26.1	2.06	91.01	83.91	92.06	94.16	67.81	77.80
United Kingdom (306)	152.85	+13.0	140.42	140.41	+26.6	4.29	151.82	139.98	139.98	158.41	133.28	128.71
USA (548)	141.98	+25.4	130.34	141.98	+25.4	3.24	141.71	130.66	141.71	143.84	112.15	111.23
Europe (996)	131.65	+14.8	120.86	124.99	+24.3	3.35	131.34	121.10	125.24	132.95	112.63	105.66
Nordic (121)	168.26	+20.5	154.47	155.92	+26.5	1.82	167.21	154.17	155.66	178.38	137.95	113.86
Pacific Basin (670)	187.75	+0.5	172.38	166.01	+12.1	0.71	186.45	171.91	165.85	194.72	160.44	157.90
Euro-Pacific (1666)	165.43	+4.9	151.86	149.54	+16.7	1.56	164.51	151.68	149.54	166.96	141.56	137.03
North America (671)	142.35	+25.0	130.68	141.10	+25.0	3.23	142.07	130.99	140.83	144.24	112.79	111.64
Europe Ex. UK (690)	117.79	+15.9	108.13	115.39	+22.3	2.67	117.94	108.74	116.05	118.18	98.30	91.28
Pacific Ex. Japan (215)	135.95	+9.1	124.80	122.18	+14.5	4.63	135.37	124.81	121.82	137.65	111.93	117.63
World Ex. US (1862)	164.91	+5.6	151.39	148.93	+16.0	1.64	164.03	151.23	148.94	166.35	141.49	136.11
World Ex. UK (2104)	155.93	+11.3	143.14	147.14	+18.2	1.94	155.31	143.20	147.10	155.93	136.98	126.21
World Ex. So. Af. (2350)	155.63	+11.3	142.87	146.56	+18.8	2.13	154.96	142.87	146.47	155.92	136.67	126.55
World Ex. Japan (1955)	138.41	+20.7	127.07	134.84	+24.4	3.34	138.12	127.35	134.79	138.41	114.51	109.74
The World Index (2410)	155.64	+11.5	142.88	146.50	+18.9	2.15	154.98	142.90	146.42	155.89	136.68	126.42

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

CONSTITUENT CHANGE: Deletion: AEG (West Germany)(25/9/89).

EUROPEAN OPTIONS EXCHANGE

Series		Nov. 89 Vol	Nov. 89 Last	Feb. 90 Vol	Feb. 90 Last	May 90 Vol	May 90 Last	Stock
Gold C	$ 380	27	4	37	11	-	-	$ 366.90
Gold C	$ 390	2	1.90	30	8.50	219	14	$ 366.90
		Oct. 89		Jan. 90		Apr. 90		
EOE Index C	Fl. 300	510	15	-	-	-	-	Fl. 313.14
EOE Index C	Fl. 310	268	7.30	16	15.60	34	21	Fl. 313.14
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TOTAL VOLUME IN CONTRACTS : 43,672
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	14	City Merchants Bank	14	Mount Banking	14
Adam & Company	14	Clydesdale Bank	14	Nat Bk. of Kuwait	14
Allied Trust Bank	14	Comm. Bk. N. East	14	NatWestminster	14
Allied Irish Bank	14	Co-operative Bank	*14	Northern Bank Ltd	14
● Henry Ansbacher	14	Coutts & Co	14	Norwich Gen. Trust	14
Associates Cap Corp	14	Cyprus Popular Bk	14	PRIVATbanken Limited	14
Authority Bank	14	Dunbar Bank PLC	14	Provincial Bank PLC	15
● B & C Merchant Bank	14	Duncan Lawrie	14	R. Raphael & Sons	14
Bank of Baroda	14	Equatorial Bank plc	14	Roxburghe G'rantee	14½
Banco Bilbao Vizcaya	14	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
Bank Hapoalim	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank Credit & Comm	14	First National Bank Plc.	15	● Smith & Williamson Secs.	14
Bank of Cyprus	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank of Ireland	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of India	14	Girobank	14	United Bk of Kuwait	14
Bank of Scotland	14	● Guinness Mahon	14	United Mizrahi Bank	14
Banque Belge Ltd	14	HFC Bank plc	14	Unity Trust Bank Plc	14
Barclays Bank	14	● Hambros Bank	14	Western Trust	14
Benchmark Bank PLC	14	Hampshire Trust Plc	14½	Westpac Bank Corp.	14
Brit Bk of Mid East	14	Heritable & Gen Inv Bnk.	14	Whiteaway Laidlaw	14
● Brown Shipley	14	● Hill Samuel	§14	Yorkshire Bank	14
Business Mtge Bank	14½	C. Hoare & Co.	14		
CL Bank Nederland	14	Hongkong & Shangh	14		
● Charterhouse Bank	14	● Leopold Joseph & Sons	14		
Citibank NA	14	Lloyds Bank	14		
		McDonnell Douglas Bnk	14		
		Meghraj Bank Ltd	14		
		Midland Bank	14		

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LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

JOTTER PAD

CROSSWORD

No.7,052 Set by FRESCA

ACROSS
1 Has he most superior habits? (4-7,3)
9 Smother king in feathers (5)
10 Mac and Ruthie having joint trouble (9)
11 Tool a parliamentarian used to prevent archaic people entering (9)
12 Opening of novel set in region where games take place (5)
13 Serious composer's lodging in East Street (7)
15 Work backwards – and forwards on deck (4)
18 See 1 down
20 Following car smash in the centre of Lausanne turn to writing satire (7)
23 See 28
24 Close call, changing into ninth gear (4,5)
26 Stage production by top northern town (9)
27 Consumed in June – a tender morsel (5)
28 and 23 London theatre set to music? (3,5)
29 Big temptations outside following record revelations (11)

DOWN
1 and 18 Conservative after retirement's a treat for the children (7,5)
2 Customers for hop press, perhaps (8)
3 Social get-together – and off to church (5)
4 Set out to swallow a lake? Most strange! (7)
5 No money left for piano – and ridiculed about it! (5,2)
6 Bring down our carriage! (9)
7 Many speak – sotto voce, presumably (6)
8 Drink rematerialised in trance (6)
14 Deprived of spirit – or cut dead outside? (9)
16 Kind of sugar to hold back in case (8)
17 Fancies one publication that lacks A, Z – and S (8)
19 Orkney's quite a change from this New York district (7)
20 Caught cutting footwear? A disgrace! (7)
21 It's between floors where you need strong illumination (6)
22 Summons makes that man squirm (6)
25 "—— where you sit shall crowd into a shade" (Pope) (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 14.

WORLD STOCK MARKETS

AUSTRIA [illegible]

BELGIUM/LUXEMBOURG [illegible]

DENMARK [illegible]

FINLAND [illegible]

FRANCE [illegible]

FRANCE (continued) [illegible]

GERMANY [illegible]

GERMANY (continued) [illegible]

ITALY [illegible]

ITALY (continued) [illegible]

NETHERLANDS [illegible]

NORWAY [illegible]

SPAIN [illegible]

SWEDEN [illegible]

SWITZERLAND [illegible]

SOUTH AFRICA [illegible]

JAPAN [illegible]

AUSTRALIA [illegible]

AUSTRALIA (continued) [illegible]

HONG KONG [illegible]

SINGAPORE [illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
Closing prices September 29

[illegible]

MONTREAL
Closing prices September 29

[illegible]

Total Sales 6,673,388 shares.

INDICES

NEW YORK

DOW JONES	Sep 29	Sep 28	Sep 27	Sep 26	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2692.82	2694.91	2673.06	2663.94	2752.09 (1/9)	2144.64 (3/1)	2752.09 (1/9/89)	41.22 (2/7/32)
Home Bonds	92.45	92.45	92.42	92.62	94.15 (2/8)	87.35 (23/3)		
Transport	1449.86	1438.12	1427.63	1424.96	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	216.17	216.55	215.17	215.48	221.64 (8/8)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2721.12 (2709.16) Low 2675.72 (2657.86)

STANDARD AND POOR'S

	Sep 29	Sep 28	Sep 27	Sep 26	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	349.15	348.60	345.10	344.33	353.73 (1/9)	275.31 (3/1)	353.73 (1/9/89)	4.40 (1/6/32)
Industrials	397.95	397.81	393.88	393.01	405.27 (1/9)	318.66 (3/1)	405.27 (1/9/89)	3.62 (21/6/32)
Financial	34.20	33.85	33.34	33.14	34.20 (29/9)	24.30 (3/1)	33.59 (7/8/89)	8.64 (1/10/74)
NYSE Composite	193.97	193.55	191.82	191.47	196.37 (1/9)	154.98 (3/1)	196.37 (1/9/89)	4.46 (25/4/42)
Amex Mkt. Value	388.76	385.75	383.04	382.19	388.76 (29/9)	305.24 (3/1)	384.54 (12/9/89)	29.31 (9/12/72)
NASDAQ Composite	472.92	471.14	467.77	467.84	472.92 (29/9)	378.56 (3/1)	471.86 (12/9/89)	54.87 (31/10/72)

	Sep 22	Sep 15	Sep 8	year ago (approx.)
Dow Industrial Div. Yield	3.75	3.76	3.70	3.70

	Sep 27	Sep 20	Sep 13	year ago (approx.)
S & P Industrial div. yield	2.90	2.87	2.89	3.19
S & P Indl. P/E ratio	14.42	14.49	14.46	13.03

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Harcourt Brace	3,683,000	12¼	– 4⅛
Amer Corp	2,647,800	86½	+ 2⅝
Scecorp	2,211,500	35⅛	
IBM	2,171,500	109¼	+ ⅛
Bristol Myers	1,728,500	52⅛	+ ⅜
Am T & T	1,691,400	44⅞	+ 1
McDonald's	1,675,300	29⅛	– ⅜
Citicorp	1,460,000	33⅝	– ⅜
Gen Electric	1,433,600	56⅝	– ⅜
Chevron	1,338,600	61	+ 2⅞

TRADING ACTIVITY

† Volume (Millions)	Sep 29	Sep 28	Sep 27
New York	155,300	161,025	159,268
Amex	14,116	14,553	15,051
NASDAQ	136,376	133,132	123,179
Issues Traded	1955	1957	1951
Rises	892	918	622
Falls	560	536	811
Unchanged	503	503	518
New Highs	101	67	51
New Lows	24	13	24

CANADA

TORONTO	Sep 29	Sep 28	Sep 27	Sep 26	1989 HIGH	1989 LOW
Metals & Minerals	3689.4	3711.3	3649.3	3647.7	3919.2 (1/9)	3207.5 (3/1)
Composite	3942.9	3941.1	3918.1	3921.0	4019.7 (30/8)	3350.5 (6/1)
MONTREAL Portfolio	2004.82	2002.12	1988.27	1989.27	2053.80 (1/9)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Sep. 29	Sep. 28	Sep. 27	Sep. 26	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1735.7	1720.2	1721.8	1703.1	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	841.8	831.7	833.9	825.3	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	473.09	474.60	472.07	468.51	474.60 (28/9)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	(u)	6762.92	6791.37	6805.28	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	329.54	329.36	326.71	327.11	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	697.0	682.7	674.8	697.1	815.8 (18/4)	674.8 (27/9)
FRANCE						
CAC General (31/12/82)	557.3	554.5	552.2	548.9	557.3 (29/9)	437.9 (4/1)
Ind. Tendance (30/12/88)	125.5	126.4	125.5	126.1	126.6 (25/9)	97.3 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	662.24	667.32	665.93	677.7	685.92 (8/9)	535.78 (27/2)
Commerzbank (1/12/53)	1976.5	1993.6	1989.8	2027.1	2052.1 (8/9)	1595.7 (27/2)
DAX (30/12/87)	1574.37	1585.75	1590.62	1609.03	1657.61 (8/9)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2758.25	2755.32	2712.57	2725.41	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1759.12	1766.29	1763.35	1770.01	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	707.67	709.12	704.82	707.49	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	35636.76	35689.98	35370.57	35444.82	35689.98 (28/9)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2702.22	2696.18	2681.66	2675.22	2702.22 (29/9)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	265.2	265.8	265.4	268.5	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	203.9	204.4	204.1	206.5	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	689.13	695.50	693.94	691.06	696.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1145.90	1147.94	1151.94	1153.31	1217.44 (10/8)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1375.18	1371.40	1379.02	1387.62	1420.52 (13/9)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1664.0§	1673.0	1710.0	1686.0	1710.0 (27/9)	1291.0 (15/2)
JSE Industrial (28/9/78)	2740.0§	2750.0	2762.6	2744.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA						
Korea Comp Ex. (4/1/80)	943.44	931.95	924.75	925.42	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	325.50	326.38	328.22	328.55	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4341.2	4302.63	4264.3	4236.45	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	795.3	799.0	792.5	803.6	829.1 (6/9)	613.1 (3/1)
TAIWAN						
Weighted Price (30/6/66)	10364.84	(c)	10489.76	10669.79	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	689.51	691.73	694.47	687.20	724.95 (13/9)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	546.8	545.2	542.9	551.2 (3/8)	487.6 (13/6)

§ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday September 29 1989

	Stocks Traded	Closing Prices	Change on day
Tokyu	16.2m	1,990	+40
Nippon Steel	15.6m	780	-3
Odakyu RR	13.0m	1,800	+60
Hankyu	10.5m	1,440	+60
Tobu	10.6m	1,050	+30
Nissan	9.3m	1,650	+30
Kobe Steel	8.9m	770	+7
Nippon Express	8.4m	1,520	+40
Meiko	7.7m	1,060	0
Fujita	7.7m	1,700	-20

4pm prices September 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
37⅝	21⅛	AAR	.44	1.2	22	334	27	36⅛	36⅛	– ⅞
8⅝	8⅜	ACM n	1.01	11.		280	9⅛	9	8⅞	+ ⅛
11⅛	10¼	ACMIn	1.26a	11.		246	11¼	11⅛	11⅝	
10¼	8	ACM M n	1.01	12.		300	9	8⅞	8¾	
11½	10	ACM Sc	1.26	11.		778	11¼	11	11	– ¼
8¾	8⅛	ACMSp	1.01	11.		361	8⅞	9	8⅞	+ ⅛
18	11½	AL Lab	.18	.7	18	15	16⅛	16⅞	16⅞	
4⅛	3⅛	AMCA	.12e	3.4	28	1	5½	3½	3½	
6⅛	4½	AM Intl			12	608	5⅝	5½	5½	– ⅛
23½	20⅞	AM In pf	2	9.1		20	22	22	22	
30	45¾	AMR			18	26488	87⅛	85	86⅛	+2⅞
37	25	ANR pf	2.67	10.		3	25⅞	25⅞	25⅛	– ⅞
24⅞	23⅛	ANR pf	2.12	8.8		4	24⅞	24⅛	24⅛	
7⅛	3⅝	ARX				92	4	3⅞	3⅞	
40⅞	36¾	ASA	3a	6.7		694	45⅞	44¾	44⅞	– ½
30¼	15¾	AVX	.24	.8	14	8693	36¼	29⅛	30½	– ½
68	44⅛	AbtLab	1.40	2.2	18	2187	64⅞	28⅞	63¾	– ¼
18¼	13¾	Abitibi g	1			8	14⅝	14½	14½	
13	7½	AcmeC	.40	3.8		71	10⅞	10⅞	10⅞	+ ⅛
9¼	5⅞	AcmeE	.32	3.4	11	14	9⅞	9¼	9⅜	+ ⅛
34⅞	28¼	Acuson			25	1140	u35½	34⅛	35	+ ¾
17	14¼	AdaEx	1.82e	11.		100	16⅛	16¼	16½	+ ⅛
12⅞	6½	Adobe				172	11⅛	11⅝	11⅞	+ ¼
19⅝	16½	Adob pf	1.84	8.7		8	16⅛	16⅞	16⅞	– ⅛
21⅛	18⅞	Adob pf	2.40	11.		22	21	20⅞	20⅞	– ⅛
11½	7½	AMD				3186	9	8¾	8⅞	– ⅛
35½	26¾	AMD pf	3	9.7		18	30⅛	30¼	30⅞	+ ⅛
13⅞	8⅛	Advest	.12	1.4	18	230	9	8⅞	8⅞	
60¼	46	AetnLf	2.76	4.8	8	3009	58¼	57	58	+1⅛
14	12⅛	AffilPb				620	13⅛	13	13¼	+ ⅛
26⅛	15⅛	Ahmans	.88	3.7	11	10078	u24	22⅛	23⅝	+1
4¼	2¼	Aileen				14	3¼	5⅛	3¼	
48¼	37⅛	AirPrd	1.32	2.9	11	z702	40¼	45½	40¾	+ ⅛
37⅛	17⅛	AirbFrt	.60	1.7	23	284	36¼	35¼	35¾	– ½
29¼	14¼	Airgas			13	254	22¼	21⅛	22	+ ⅛
36¾	18⅛	Airlease	2.40	12.	9	48	36⅞	20⅛	20¼	
24½	21¼	AlaP pf	2.13e	9.4		69	22⅞	22⅞	22⅞	– ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 41

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14¼	5⅛	WaldSp	...	..	10	102	13½	13¼	13¼	
19¾	15⅝	WriGVI	2.05e	11.		150	16⅞	16	16	− ⅛
51½	33	Wrigley	.80	1.9	19	491	43¼	42¾	43⅛	+ ⅝
1⅝	5-32	Wurlitch				30	15-64	7-32	7-32	− 1-64
10¼	7¼	WyleLb	.28	3.2	14	60	8¾	8⅝	8¾	+ ⅛
28	16⅞	Wynns	.60	2.3	12	16	25⅝	25⅞	25⅝	+ ⅛
12⅞	4½	Wyse				1211	7⅝	7¼	7⅝	+ ⅜
		– X–Y–Z –								
69	53⅝	Xerox	3	4.6	19	2006	65½	65⅛	65⅜	+ ⅛
49⅝	44½	Xerox pf4.18		8.7		9	47¼	47⅛	47¼	
44¼	27¾	XTRA	.72	2.6	6	198	28	d27¼	27¼	− ⅜
33	24¼	XTRA pf1.94		8.1		11	24	d24	24	− ½
4¼	2	Zapata				260	2⅝	2½	2⅝	+ ⅛
15½	9⅝	Zemex	.40	4.1		6	10	d 9⅝	9¾	− ¼
22⅞	14	ZenithE				791	14⅞	14½	14½	− ¼
10⅞	6¼	ZenInc	1.28	15.		68	8½	8⅜	8½	+ ⅛
2½	1¼	viZenLb				1018	1⅝	1¼	1½	− ⅜
21½	15	ZenNtl	.84	4.3	8	200	19½	18⅞	19½	+ ½
18½	12⅛	Zero s	.40	2.3	17	522	17½	17⅜	17½	+ ⅛
44⅞	25	Zurnln	.88	1.8	30	557	41¾	41⅛	41½	− ½
12	10	Zweig	1.12e	9.3		443	12	11⅞	12	+ ¼
18⅞	8⅞	ZweigTl	.96	10.		999	9⅛	9⅜	9¼	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices September 29

OVER-THE-COUNTER

Nasdaq national market, 4pm prices September 29

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
A&W Bd		29	362	28¼	28	28	+ ½
ADC		14	184	17⅛	16⅞	17	
ADT		18	695	32⅜	32⅛	30¼	+ ¼
AEP		13	123	20¼	30	30¼	+ ¼
ALC h			67	3⅝	3 9-16	6⅝	
ASK		16	6903	9⅝	9¼	6½	− ¼
AST			427	6½	6¼	6¼	− ⅛
Acadin		34	1051	1 1-16	1	1 1-32	+ 1-32
AcmeSt		6	17	28¾	29¾	29¾	
ActARt	1	14	492	10⅜	16¼	16¼	− ½
Acxiom		21	6	10¾	18¾	13⅞	− ¼
AdacLb	.16	14	8889	6 1-16	4 15-16	6 1-16	+ 3-16
Adapt		42	441	17	16⅞	16⅞	− ⅜
Adingl s		27	1916	20⅞	20	20⅞	+ ½
AdiaSv	.14	17	147	28½	28	28	
AdobeS	s.14	13	6062	18¼	17¼	17⅜	− ⅜
AdMkSv		15	825	13	12½	13¼	− ¼
AdvPoly			119	7⅛	6⅞	6⅞	
AdvSem			21	6⅞	6⅝	6⅝	− ⅛
AdvTel		26	442	28¾	23½	28¾	+ ¼
Advanta	.10e	240	402	s12¼	11⅞	12	+ ⅛
AdvoSy			516	9⅝	9⅛	6⅞	
AffBcCp	.32	16	18	6⅝	6⅝	6⅝	
AftSeh		49	117	18⅞	13	18¼	+ ⅛

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FINANCIAL TIMES

The Business Column

BAT: the lessons for corporate 'parents'

BAT Industries' self-dismemberment in the face of the threat from Hoylake has no general lessons for other conglomerates. Or so we were told last week, with unseemly haste, by the rattled bosses of other conglomerate predators-turned-potential-prey, notably the chief executive of BTR.

They must have been joking. You do not need to be schooled in the new theory of focused "corporate parenting" to recognise that BAT's shedding of two once prized planks of its long-standing diversification strategy – retailing and paper – have plenty of lessons not only for other conglomeretes, but also for more narrowly focused companies of every shape and size.

The first lesson is that it is no longer safe, nor responsible to shareholders, for e company to hang on too long to diversifications which have failed to live up to their promise – to which, more to the point, the parent has found it can add inadequate value.

Second, it is no longer sensible (nor, again, responsible) to diversify in several directions et the same time. The once-fashionable notion of owning businesses in several quadrants of a four-box portfolio matrix still has its uses as an analytical tool, and can sometimes be applied literally – but not if the businesses have little in common with each other. To own a cash cow in tobacco, and e supposedly "star" business in insurance, is questionable enough in itself, without having two further types of business in other quadrants.

Third, the "parenting" issue. It is no longer adequate for e diversifier to claim business, geographic or technological synergy between its subsidiaries. For a diversification to be successful, it needs also to fit the parenting skills of the group's head office. The HQ may be a natural financial controller (like GEC, for example), or it may be good at coaching its businesses by sharing skills across them, like Unilever. It may, instead, be a natural hands-on "orchestrator". But since the sort of expertise required is different, it is unlikely to be good at more than one of these roles, and certainly not at all three.

The special skills required of a parent

The headquarters may be *able to adapt its style to suit a* new acquisition, but the time it takes to learn the necessary skills is usually longer than that required for shareholders – or raiders – to grasp that the business would probably perform better under alternative ownership, or on its own.

It is the specialised nature of most parenting skills which explains the success of Hanson. From the outside, this organisation may look like a traditional conglomerate, but at heart it exploits its specialist skills by restricting most of its acquisitions to mature businesses with a particular *set of characteristics*.

BTR has been rather less choosy, and is therefore more exposed, while BAT has failed to follow an equivalent path, and is now paying the price. Protestations that its tobacco marketing skills are transferable to insurance remain not entirely convincing.

Where does all this leave companies in the UK and US which not only want to diversify, but need to if they are to continue to exist? Option one is to run themselves down, and return their shareholders' money – hopefully with interest. Option two is only to diversify into fields which really are synergistic, as Pilkington has done from flat glass into other optical products.

In today's investment climate this may prove to be e rocky road – it is not long since the glass giant nearly fell prey to e voracious BTR – but et least one's shareholders can easily see the sense of what one is trying to do.

Even then, as Pilkington found, it may be a close shave. One of the reasons was that it had not been a perfect parent. It had failed to learn sufficient marketing skills, and to coach its subsidiaries in them, in order to reinforce their traditional strengths of productivity and technological innovation. Today's successful parent must not only possess appropriate skills, but a full panoply of them.

Christopher Lorenz

THE MONDAY INTERVIEW

New guardian of nurses' welfare

Christine Hancock, general secretary of the Royal College of Nursing, speaks to **John Gapper**

An oil painting of Trevor Clay sits in a cardboard box waiting to be removed and the frescoed staircase of the Royal College of *Nursing* shows the ruin of the Roman empire. It is the end of an era; today Christine Hancock will take over as the British trade union leader who exercises most influence on government.

The RCN, a strange hybrid of professional organisation and union, is accorded privileges by the British Government that it no longer bothers to extend to other unions. Cabinet ministers attend its annual conference, praise its repudiation of industrial action and open their doors to its leader.

For the past seven years, thet person has been Trevor Clay, a former male nurse with one O-level. He presided over an *unprecedented growth* in the RCN's membership and influence as nurses flocked to it after a round of protests over pay in 1982. From 169,800 members in 1982, it has risen to 284,700 today. It has come to dominate public debates about nurses' pay and work.

Mr Clay, who is retiring because of ill health, was an adroit politician. He led the RCN with passion, emphasising the loyalty of nurss to their patients. The Government cited the RCN's moderation as justification for the pay review body that has ewarded nurses higher pay increases than other groups of pnblic servants have achieved.

Ms Hancock's approach is likely to be more analytical and measured. With *a degree* in economics and a shining career in NHS management, she acknowledges that she is a *"gamekeeper turned poacher."* Nor did shs even apply for the joh initially; Mr Clay persuaded her to put her name forward after the first round of candidates was rejected.

It is an unusual background for a union leader. Despite being active within the RCN, she has not served her time as a full-time officer in the traditional manner. She was a star of a previous Government reorganisation of the NHS, becoming the first woman and nurse to bead one of the 192 district health authorities in England and Wales.

Sbe did not go completely native, she insists. "Those members who do not know me will need reassuring that I am first and foremost, and passionately, a nurse," she says. "Many of the nurses who became managers, because the culture required it, would say 'I am a general manager who used to be a nurse.' I never said that, and I was often questioned and challenged for not having whole-heartedly joined the club."

It was a club that the RCN opposed. The college is critical of the Government's proposed NHS reforms, under which hospitals are being encouraged to become self-governing and establish an internal market. In *1984, it had similar* misgiving about the introduction of general management. But Ms Hancock says thet reform has proved worthwhile.

"I think aspects of it have been working well, but no other organisation would introdnce such radical change in 1984 and then talk abont turning it upside down again five years later," she says, "It is time they stopped tampering with it and realised it is the delivery of health care that is complicated and not the organisational structure."

That delivery is becoming more difficult on both the demand and supply sides. In Britain, as in other countries, tbe health care industry *is* being put under strain by demographic changes that are simultaneously reducing the potential workforce and increasing the need for care of the elderly. At the same time consumers' expectations of health care are rising.

The impact on nurses is perhaps greater than any other group of health workers. Shortages of nurses with special clinical skills will almost inevitably grow. The scarcity of nursing recruits has prompted the Government to talk of reorganising work so that the more mundane nursing tasks are carried out by care assistants.

There is talk of substitution *at the border line with doctors* as well: one Oxford hospital is advertising for a surgical assistant with nursing qualifications. As e professional body, the RCN wants a stable role for nurses; as e union with an eye on expansion, it is considering admitting unqualified nursing assistants for the first time.

Ms Hancock is cautions about how far the boundaries sbould be blurred at either end. She cites Virginia Henderson, the 92-year-old figurehead of American nursing. "I remember Virginia saying 'You've got to be careful when you take things from the doctors, because when they've got nothing else to do they'll sure damn well take them back again'," she says.

She suggests that patients' needs should determine who cares for them. "If you are on ell sorts of life-snpport *systems, you don't want a care* assistant even cleaning your teeth. If you are elderly and in e residential home, clearly they could do quite complicated things. They could look after yon totally," she says.

The nurse would then become more skilled, but the role would remain distinct from that of e doctor: the "nurse practitioner" role coveted by the profession. "Skilled nurses are increasingly going to have to be people who make assessments, and monitor and evaluate, and teach and support other people, inclnding the families and the patients themselves, to *carry things* out," she says.

She cites the health care systems of the US and West Germany, which, in giving fees for service to doctors, inadvertently encourage a high rate of surgery. "It is the politicians' great nightmare that public expectations will send the costs through the roof but in fact it is paying the professionals that sends costs up . . . (West Germany and the US) have much higher hysterectomy and appendectomy rates: the things that you cannot think of any good reason for doing other than the financial incentive to operate," she says.

In Britain, giving greater influence to patients leads to more cost-effective treatment, she believes. "In maternity, women hsve grabbed at shorter length of stay rather than doctors imposing it. On the whole the consumer movement is saying less intervention, and the more you have intervention and high-cost obstetrics the longer length of stay you have. They may not actually say shorter lengths of stay – hut in effect that is what they are saying."

A countervailing trend is the need to fit health care around the availability of staff. Hospitals prefer to *operate* during the day, and sometimes induce births at a time convenient for the doctors and nurses. Ms Hancock *says* more day surgery – which is less costly in nurse time – would save money.

She even sees hospitals moving *towards scheduling* surgery during school terms in order to attract more mothers to work as nurses. "It is e fine balance between making the customers fit the staff and making the staff fit the customers," she says.

Amid growing fears abont staff difficulties, the NHS is trying to alter what Ms Hancock calls "the Passchendaele theory of woman management" – the tradition of whole generations of nurses leaving the profession in waves to have children and not returning. She believes it could retain more of those who leave by *attending to the stresses of the* job and providing staff counselling.

"We recruit people when they are pretty young, take them eway from home when they are still growing up in lots of ways, and put them through really quite horrendous experiences. However well staffed and managed, some of the things nurses see and have to do are pretty traumatic. It is amazing how well they cope, but it is often despite employers' endeavours, not because of them," she says.

She cites the employee assistance programme run hy American Medical International in the US as an example of a health company providing staff counselling and support, for hard-nosed financial reasons. She also holds out hopes *of the number of male* nurses rising from the current level of 10 per cent as more people choose to change careers in *their mid-20s*.

Ms Hancock's most immediate problem remains the Government's proposed reforms. So far the British Medical Association, representing doctors, *has attracted most criti*cism from the Government for its opposition. The RCN has remained out of the limelight, but that may change when Ms Hancock bolds an inaugural press conference today.

The reforms will affect her members' pay and conditions es well as their working responsibilities. The self-governing bospitals are to be allowed to opt out of long-standing national pay bargaining arrangements. The RCN *has* opposed local pay variations, and fears that the hospitals will also distort the newly introduced national clinical *grading structure intended* to give a clearer career progression for nurses.

"It would be disastrous at a time of rising shortages and impending need if nobody took *an overview over recruitment* and retention, and pay and conditions. We want to see national scales remaining in place, and any suggestion that local bargaining might get rid of the grading structure before it has even arrived properly would cause mayhem," she says.

Although Mr Clay's oratorical powers will no longer be deployed against the reforms, Ms Hancock can be equally scathing, despite her cooler manner. "I have no sympathy with sudden change on a service as important as this to achieve political ends. They *have not convinced me that* these changes will improve care to patients," she says.

PERSONAL FILE	
1943	Born.
1962	Trainee nurse, King'a College Hospital, London
1966	Ward sister, National Heart Hospital, London
1969-71	Economics degree, London School of Economics
1970	Research Assistant, DHSS Nursing Committee
1979	Area Nursing Officer, Camden and Islington
1982	Chief Nursing Officer, Bloomsbury
1985	District General Manager, Waltham Forest
1989	RCN general secretary

'I am first and foremost a nurse'

Jury trial deters potential defamers

JUSTINIAN

WHEN *Pressdram Ltd*, the publisher of Private Eye, goes to the Court of Appeal this week, *challenging* the jury award of £600,000 for a libel which it failed to justify, all other publishing eyes and ears will be heavily concentrated on issues that go beyond the immediate, single award of damages.

The immediate issne concerns the widely held view – in newspaper circles at least – that jury awards in libel actions are unprincipled, arbitrary and currently markedly excessive. In June 1987, a jury ewarded £450,000 to an individual plaintiff against an obscure Greek magazine. This was followed a month later by the eward in the Jeffrey Archer *case of £500,000. Two separate* jury awards of £260,000 and £300,000 were handed down in two later cases in 1987 and 1988.

The size of these awards is not entirely new – juries have always been on the generous *side* in assessing the value to be put upon an individual's loss of reputation. But recently they have been coming in quickfire succession such as to make newspaper proprietors and editors uneasy and even unnerved.

They are acutely aware that individuals who claim that they have heen defamed are not slow to use the threat of jury trial. These individuals know that there are rich pickings to be had at the end of the process by *forcing* unrealistically large settlements out of the publishers when the words complained of may be accurate, but where *there is always* room for argument about their possible inferential meaning. The newspapers are in sucb circumstances heing counselled to pay quite large sums of money for fear of inordinate *awards by juries* and the very high cost of litigation.

The problem for publishers is exacerbated by the relnctance, not to say severe reticence, of Appeal judges to interfere with the jury ewards, particularly where the award is so much the product of a lay opinion without any guiding principles rather than rational *calculation arrived* at by professionals. And if the Court of Appeal should feel that the particular eward has gone beyond all reason in its supposed reflection of the proper compensation for an injured reputation – topped up by aggravated or punitive damages *because of the defamer's* condnct in the process of defaming the individual – the present rule is that the court *cannot substitute* its own appropriate figure for that of the jury's. The award must be set aside, and a new jury has to be enpanelled.

The effect of this abdication of function is perhaps not so disastrous. Faced with the prospect of further litigation, the parties almost invariably compose their differences, and a compromise figure is reached. If that is the common experience, why not save time and expense and agree to let the Appeal jndges fix the appropriate sward?

The Court of Appeal can do little about the use of jurors in libel actions. Only Parliament can take away or restrict the rights and demand for trial by jury. It is surprising, however, *that the recommendations of* the Faulks Committee nearly 15 years ago have gone unheeded. That committee said that the courts should have a discretion, depending on the circumstances of each case, to decide whether or not, in the interests of justice, there should be trial by jury. The committee further recommended that the jury's duties in libel cases should be limited to making findings on liability, with damages being assessed by the judge. Assessment would be made on the jury's indication whether tha damages should be "substantial, moderate, nominal or contemptuous."

Juries are nowadays used in a tiny fraction of civil actions in tbe courts. A party may demand a jury today in practice only in libel cases and "police cases" (actions for false imprisonment and malicious prosecution). The right is frequently exercised. By contrast, cases of personal injuries, divorce and commercial cases, whicb have all at one time involved the use of juries, are now almost invariably tried by a judge sitting alone. In the case of personal injury litigation, where the eclipse of the jury has been the most recent (in 1933) special questions concerning the assessment of damages provide a parallel situation.

The persistence of jury trial in the limited classes of libel cases reflects a social need for wanting a broad judgement from a random group of representative laymen. *Hitherto*, attacks on peoples' reputations arose in innumerable ways. Libel was the happy bunting ground of the noted and the notorious, and occasionally served as a forum for sorting out personal grudges between neighbours. But the scope and extent of the media in contemporary society have indicated that the prime social function of the libel suit has been, and will increasingly continue to be, an instrument of control of the misuse of power by the press and broadcasting.

The media watch carefully to see that they do not take unacceptable risks of libel action. Libel lawyers scour the journalists' copy. Insurance is a major factor. Insurers play an *important part* in *deciding* whether potentially defamatory matter finds its way in the insured's publication.

Jury trial thus is a powerful influence as a deterrent to potential defamers. The size of jury awards is constantly a matter of acute interest to the media. The oft-asserted criticism that an injured reputation *appears to be infinitely* more valued by society than is any physical damage that mey be done to a person may ultimately persuade the courts to slim down the size of libel damages. A reversal of the *£600,000* damages awarded against Private Eye might be the first step in that direction.